AN EMPIRICAL INVESTIGATION OF FACTORS PREDICTING THE CHOICE OF AN ADVERTISING AGENCY

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CHAPTER 1: INTRODUCTION

1.1 Background to the research

Advertising is of critical importance to the long-term success of organisations (Prendergast & Shi, 1999), a fact reflected in the size of the advertising industry. Indeed, the global advertising expenditure in 2013 was estimated at over US $500 billion (Sarvary, 2013), a figure, which clearly communicates the significance of advertising to the global business community. Creative advertising produced by advertising agencies account for most of the total advertising spend (Horsky, 2006). Businesses commission agencies to design and manage their advertising activities because, as with other professional business services, companies usually do not possess the types of skills needed to perform the service themselves (Bostrom, 1995; Horsky, 2006). Being specialists in both, creative communications and marketing strategy, advertising agencies can better identify successful ways to advertise clients' brands than the clients themselves (Wills, 1992). A well designed, produced and implemented advertising campaign can have a tremendous impact on a client's sales, profits and market share (Kulkarni, Vora & Brown, 2003). While good quality advertising can add significant value to a business, the opposite is also true. Poor advertising may cause losses for the client in terms of wasted money as well as flat, or even declining sales (Rossiter & Bellman, 2005), detrimental to the overall business performance. This, in turn, can trigger problems in client-agency relations, usually ending in agency termination, losses for both parties (Fam & Waller, 2008; LaBahn, 1996; Waller, 2004) and a need for the client to stage a new, costly agency selection process (Fam et al., 2008). Furthermore, the time a client

organisation needs to readjust to a new agency further increases the total cost of agency switching (Dowling, 1994).

It is obviously in the interest of both agency and client to enter into healthy, productive and long-standing relationships. However, it appears the opposite is happening. Research indicates that since the 1990s the agency tenure has been declining (Ewing, Pinto & Soutar, 2001). So (2005) found that the average agency retention time had dropped from 7.2 to 5.3 years. Recently, Turnbull & Wheeler (2014) reported that the agency tenure is currently less than 3 years. This indicates a trend of increasing agency turnover which warrants an examination of the causes for agency-client relationships breakdown.

Different reasons for agency termination have been identified (Waller, 2004). Some of the most important include: substandard advertising quality, disagreement over advertising objectives and client-agency personality conflict (Michell, Cataquet & Hague, 1992), inability of advertising agencies to develop close relationships with their clients (Michell, 1984) or to provide good customer service (Dowling, 1994), lack of interpersonal chemistry between agency and client (Ewing et al., 2001) and a client-perceived need for new creative ideas from a new agency (Dowling, 1994). It has been suggested that deeper reasons for the increasing breakdowns in client-agency relationships may stem from a lack of understanding of what clients and agencies expected from the relationship (Cagley, 1984). This view shifts the focus of analysis of client-agency relations back to the earlier, pre-relationship stages associated with agency selection.

Selecting an advertising agency is a key element of the overall efforts of an organisation to manage its advertising and promotion successfully. The formal agency selection process is a

complex, lengthy and expensive procedure (Buchenan & Michell, 1991; Cagley, 1986; Waller, 2004). The hiring of an advertising agency is a high involvement decision (Na, Marshall & Son, 2003), with direct implications for the achievement of sale targets and financial performance of the client organisation (LaBahn & Kohli, 1997). Businesses expend time and financial resources to stage structured advertising agency selection processes in order to find the right agency for their needs. However, selecting a professional business service provider that is right for the particular client is not easy and is, in fact, far from straight forward (Lian & Laing, 2007). As Day & Barksdale (1994, p. 44) caution "…selecting a professional service provider can be one of the most important decisions and potentially one of the costliest mistakes client firms can make."

The difficulties in choosing the right professional business service provider stem mainly from the inability of buyers to ascertain service quality at the time of selecting and hiring a professional service provider (Day et al., 1994; Nelson, 1970), due to the intangible and credence nature of these services (Mitchell, 1998; Thakor & Kumar, 2000). This gives rise to buyer quality uncertainty and risk of making the wrong choice (Akerlof, 1970; Martin & Camarero, 2005), which in turn, motivates buyers to engage in risk reduction activities (Mitchell, 1998) before making a final choice. Since actual quality of credence services (such as advertising and other professional services) cannot be known prior to purchase, buyers would make an effort to infer future quality (Day et al., 1994; Herbig & Milewicz, 1995) by searching for information about the characteristics of the service providers (Bergen, Dutta & Walker, 1992). In such conditions buyers scrutinise the suppliers by interviewing, observing and/or testing them (Bergen et al., 1992) in order to ensure that they have the characteristics and skills essential to perform the buyer's job/task and are trustworthy enough to be hired. This process of searching for information on the service provider's background and

characteristics is known as *screening* (Bergen et al., 1992; Stiglitz, 2000). Apart from screening, buyers also interpret information about the service provider services and trustworthiness, contained in the advertising messages and the warranties of the provider, and by checking its reputation (Herbig & Milewicz, 1994, 1995). These pieces of information, known as *signals* (Spence, 1973) allow buyers to draw inferences about the supplier service quality and may reduce the selection risk buyers face in the purchases of goods, the quality of which is not known prior to purchase. Lowering the selection risk facilitates purchases and is instrumental in completing transactions when quality is imperfectly observable prior to purchase, i.e. in markets with asymmetric information. In such markets sellers know more about the quality of the goods they are selling than buyers do. The market for credence goods and services is an example of markets with asymmetric information (Mitchell, Moutinho & Lewis, 2003). This study aims to examine the agency selection process as an information-asymmetric exchange.

The thesis focuses on purchasing of advertising services which belong in the category of professional business services (Hill & Johnson, 2003; Stock & Zinszer, 1978; West, 1997) and examines the choice of a new advertising agency. More specifically, the research goal is to identify the key signals and screening factors, as well as purchase-related factors that together can predict the choice of a new advertising agency.

The next section introduces the research objective and outlines the research questions for this study. Before embarking on this task, it may be helpful to note that in this thesis the terms *organisational buyer, advertiser and client* are used interchangeably. Likewise, *advertising service supplier, advertising service provider* and *advertising agency* have the same meaning. The terms *seller/s*, *supplier/s* and *provider/s* are used to indicate *advertising agency/ies* or

professional/credence service suppliers or services suppliers, depending on context. Likewise, *the term buyer/s* is used to indicate *organisational buyer/s* of such services.

1.2 Research objective and research questions

The central proposition of this thesis is that, due to the risks involved in the purchase of advertising services, the selection process for a new advertising agency is driven by a buyer's need to search for information on the agency via screening and interpretation of signals of quality, in view of decreasing the selection risk and making sure that the agency offering the best value is selected.

This study considers the concept of expected value of advertising services as a key variable in the decision-making about the choice of a new agency. Using the concept of perceived customer value (discussed in Chapter Two) and its causal relations with purchase choice it builds the conceptual framework on the premise that consumer choice is driven by the underlying value of a market proposition, and that consumers choose from alternative market propositions the one that they believe will offers them the most value. Translated into the context of the study, this simply means that when in a search for a new agency, advertisers will compare the agencies bidding for the account on the basis of the expected value of their future services and will choose the agency that seems to offers the most value. Hence, the dependent variable in this study is *expected service value* of advertising agency services, a proxy for choice (as discussed in detail in Chapters Two and Five).

Identifying some of the key characteristics organisational buyers use to screen agencies during the agency selection process could offer insight into buyers' decision-making processes leading to a final choice of an agency. Likewise, identifying some of the important agency signals of quality that buyers consider before making a final choice of a new agency will also be important.

On the basis of the above brief overview of some key issues concerning the selection process for a new advertising agency, the research objective of this study is to:

Identify a set of factors which can predict the choice of a new advertising agency

To achieve the research objective, the thesis develops a conceptual model (Chapter 4), guided by the predictions of the Economics of Information and Signalling theories (Akerlof, 1970; Nelson, 1970, Spence, 1973; Stiglitz, 1975). The four primary research questions that this study aims to address are:

1. Do advertising agency *signals* of quality impact on the *selection risk* and the *expected value* of agency services?

2. Does *screening* for essential agency characteristics impact on the *selection risk* and the *expected value* of agency services?

3. How do purchase-related factors impact on the *expected value* of agency services?

4. Do *trustworthiness* and *selection risk* reduction mediate the effects of *the signals* and *the screening variables* on *expected value* of agency services?

To provide answers to these questions, a group of salient agency selection factors are identified from three sources: a review of previous research in the field (described in Chapter 2), the theories guiding the conceptual framework development (also discussed in Chapter 2) and through exploratory research (presented in Chapter 3). The agency selection factors are arranged in a conceptual model, which is tested using data collected for the purposes of this study.

To summarise, this study tests the proposition that a parsimonious set of carefully chosen advertising agency selection factors, (representing important signals of agency's ability to provide quality service, factors used to screen agencies for essential skills and characteristics, and few purchase-related factors) can predict the choice of a new advertising agency in conditions of new task or modified rebuy (Robinson, Faris & Wind, 1967).

1.3 Rationale for conducting the research

Advertising services have been chosen for this study, for a number of reasons. Firstly, recent meta-analyses in the area of organisational buyer behaviour (e.g. Backhaus, Lugger & Koch, 2011) and the broader field of business-to-business (B2B) marketing (e.g. Peters, Pressey, Vanharanta & Johnston, 2013; Wiersema, 2013) indicate that the research in organisational buyer behaviour (OBB) has been lagging and a number of knowledge gaps in the field have been identified. More research in OBB and B2B marketing has been called for in order to fill the gaps in priority research areas, such as changing patterns of buyer behaviour, factors influencing the behaviour of buying organisations, and better understanding of what constitutes value to consumers in B2B marketing (Wiersema, 2013).

Secondly, considering the importance of advertising agency selection the existing literature dedicated to this topic is relatively limited (Na & Marshall, 2001) and somewhat dated, with many of the studies created in the 1980s and 1990s, e.g. Cagley & Roberts (1984); Cagley (1986); Fam & Waller (1999); Dowling (1994); Harvey & Rupert, (1988); Marshall & Na (1994), Prendergast & Shi (1999), West (1997) and little has been published in the last 15 years. Exceptions include Na & Marshall (2001), Na et al. (2003); Palihawadana & Barnes (2005). Another body of scholarly research also considers the agency selection process and criteria, but only as a side issue (e.g. Michell, 1984; Verbeke, 1988; Wackman, Salmon & Salmon, 1987; Waller, 2004). It appears that the number of studies investigating advertising agency selection has declined (Turnbull & Wheeler, 2014) over time, to the extent where it is hard to find a recent scholarly article on the topic in major marketing journals.

Apart from being limited in quantity, prior research in agency selection has been dominated by descriptive methods of analysis and is lacking in structural equation modelling-based research methodologies, compared with many other fields in marketing and management, in which multivariate analysis and structural equation modelling have become one of the most popular approaches to the empirical testing of relationships among variables (Hair, Ringle & Sarstedt, 2012; Henseler, Ringle & Sinkovics, 2009; Steenkamp & Baumgarten, 2000). An extensive search of the scholarly literature on the topic could not identify any other study that has modelled and empirically tested the choice of an advertising agency. Hence this thesis is expected to make a contribution to marketing knowledge in agency selection of both conceptual and empirical value.

In brief, the present study addresses identified gaps in marketing knowledge and thus meets the research needs of the contemporary organisational buyer behaviour discipline in general, and of advertising agency selection, in particular.

1.4 Methodology

A two-stage research design is employed in this study. Stage One comprises a qualitative investigation, while Stage Two is a quantitative in nature study.

Stage One involves a small-scale exploratory study, designed to check the relevance of the advertising agency selection factors, identified as important by the literature in the field. To ensure that these factors still hold, and are relevant in Australia, exploratory research, based on personal in-depth interviews with senior marketing executives of large Australian companies which select and retain advertising agencies is conducted.

Based on the findings of the literature review and Stage One interviews a conceptual model is designed and tested using data collected in Stage Two, which involves a mail survey to marketing directors in large Australian companies that retain one or more advertising agencies. The data is analysed using Structural Equation Modelling. More specifically, Partial Least Square (PLS) Path Modelling is applied, in order to understand whether and how each of the hypothesised factors impact upon the dependent variable, the choice of a new advertising agency.

1.5 Scope of the research

The study is limited to investigating the factors predicting the choice of a new agency in conditions of *new task* or *modified rebuy* (Robinson et al., 1967). *Straight rebuy* situations in the context of agency selection have not been considered because they don't include the same degree of information asymmetry, perceived risk or complexity as a new task and/or modified rebuy.

The research is also limited to the business environment in Australia. The study employs a national sample of Australian advertisers and hence, the results are not necessarily generalisable outside of Australia.

The thesis examines the services provided by advertising agencies to organisations which retain one or more advertising agencies on a continuous basis and which would normally spend at least a million dollars on advertising per year. These companies are considered to be major advertisers (Hill & Johnson, 2003). They are of primary interest to this study because they engage in advertising agency selection and are thus able to provide the information needed for the research. Business users of advertising services which do not *hire /retain* advertising agencies and do not engage in agency selection are not considered because they cannot provide the insight sought by the study.

1.7 Summary

This chapter provided the background to the study and presented the research objective and the associated research questions. The rationale for conducting the research was discussed along with the gaps in knowledge that the study aims to address. This was followed by an overview of the chosen methodology and the scope of he research. An outline of the thesis

structure was also provided. Chapter 2 will review the relevant literature in the conceptual and theoretical domains of the study.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature in advertising agency selection and other related fields, such as organisational buyer behaviour and the purchase of professional business services. It is important to examine these bodies of knowledge because they provide a useful background to this study. Analysing previous research in the focal and related fields of knowledge makes it possible to appreciate prior contributions and helps identify areas that can benefit from further research. A more specific objective of this chapter is to distil the key selection criteria for the choice of an advertising agency previously identified in the literature. These criteria will provide a useful background against which the research model of factors predicting the choice of a new advertising agency will be developed. The theories of Information Economics and Signalling are also reviewed because they can be useful in explaining and predicting the behaviour of buyers in information asymmetric markets, such as the market for advertising services, and can guide the development of the conceptual frameworks for this study.

The chapter is organised as follows: the first part concentrates on organisational buyer behaviour and the wide range of factors exerting influence on organisational buying. The second part focuses on the characteristics of services with an emphasis on credence services, which are of particular interest to this study. Following this, professional business services, to

which advertising services belong, are discussed. Their unique features are highlighted, and the implication of these features for the structure of the purchasing process for professional services is elaborated. The next part reviews the literature on advertising services and discusses how the characteristics of these services shape the ways in which advertising agencies are selected. A review of the scholarly research on advertising agency selection follows. This part of the chapter concentrates on the factors found to play an important role in the selection. Finally, a discussion of the theories chosen to guide the development of the conceptual framework is presented.

2.2 Organisational buyer behaviour

The 1970s and 1980s saw the development of seminal literature in organisational buyer behaviour (Jonhson & Lewin, 1996). A range of important models of organisational buying were created at that time. Prominent examples include the buy-phases model (Robinson, Faris & Wind, 1967), the general model of organisational buyer behaviour (Webster & Wind, 1972) and Sheth's (1973) model of industrial buying behaviour. An examination of these models reveals that they incorporate a number of classes of factors important to consider in organisational buying. For example, Webster & Wind (1972) general model of organisational buyer behaviour highlighted the influence of environmental (economic, political, technological, cultural, etc.), organisational (e.g. size, structure, technology of the organisation), group (e.g. buying centre's group activities, interactions, sentiments) and individual factors (education, motivation, perceptions and personality of the individuals in the decision making unit) in organisational purchasing decision making. Sheth's (1973) model

of industrial buying behaviour built upon Webster et al.'s (1972) model by including more decision variables, such as product-specific factors (type of purchase, perceived risk), information sources used in the decision-making process, buying centre's conflict resolution factors and satisfaction with previous purchases.

In an attempt to update and extend these models, Johnson et al. (1996) reviewed 165 empirical studies in organisational buyer behaviour (OBB) and identified additional buying influences, which they integrated with the decision factors in Sheth's (1973) and Webster & Wind's (1972) models. This resulted in a reconceptualised and extended model of OBB, in line with more up-to-date developments in the practice of organisational purchasing. The rationale for extending the existing models was based on the fact that "additional constructs and relationships frequently emerge as important predictors of behaviour" over time (Johnson et al., 1996, p. 2) and require existing models to be revised and updated to reflect more accurately the reality.

The model proposed by Johnson et al. (1996) appears to be the most comprehensive model of OBB so far. It incorporates 13 classes of buying factors: environmental, organisational, group, individual, process-related, purchase–related, informational (sources of information), decision rules, seller characteristics, conflict resolution, roles stress, relational factors, and communication networks. These classes of factors, along with some examples of the individual variables within each class, are presented in Table 2.1, in the Appendix.

It has to be noted here that the group of variables in the category of "seller characteristics" has been interpreted by various authors in a more inclusive way. Along with variables like ability to meet specifications, delivery time, after sale service and image (Johnson et al.,

1996), other features of the seller/salesperson have been studied by different authors, e.g. personal characteristics of the salesperson (Doney & Cannon, 1997; Wren & Simpson, 1996), adaptive selling skills, salesperson's knowledge (Wren et al., 1996), salesperson's product knowledge and interpersonal skills (Weitz, 1981); supplier's ability and motivation (Moorman, Deshpande & Zaltman, 1993), reputation/visibility of the supplier (Cardozo & Cagley, 1971; Doney et al., 1997) and supplier organisation's size (Doney et al., 1997), to mention a few. It appears that a number of seller characteristics could be examined in the analysis of organisational purchasing, contingent on the specific industry studied or the specific research objectives of the study.

To conclude, Johnson & Lewin's (1996) detailed model of OBB indicates that a wide range of factors plays a role in the OBB decisions. The implication is that a full model of OBB would need to consider all of the above classes of factors. However, given the complexity of research associated with such a large number of variables, most OBB studies tend to focus on a subset of variables which best fit their particular purpose. For example, in a study of power and influence in the buying centre for purchase of advertising services, Farrell & Schroder (1999) examined only issues related to power and influence. Williams, Spiro & Fine (1990) included in their OBB framework of customer-salesperson interaction three types of factors: seller characteristics, buyer characteristics, and interaction factors.

In brief, closely examining only a subset of OBB decision variables, purposefully chosen to be relevant to the research topic and research context is an acceptable and routinely applied approach to research in business to business (B2B) marketing. Consistent with this approach, the current study, which examines organisational purchasing of services, focuses only on a

subset of organisational buying factors that influence advertising agency selection, as will be discussed in more detail in Chapter 4.

The next section discusses the unique characteristics of services and how they shape the ways services are marketed.

2.3 Characteristics of services and their implications for marketing

2.3.1. Services marketing approach to this study

Advertising is a service and its marketing is guided by the principles of services marketing (Lovelock, Patterson & Wirtz, 2011). Services are defined as deeds, processes and performances (Zeithaml, Bitner & Gremler, 2013) and as "economic activities that add value by providing time, place, form, problem-solving or experiential utility" (Lovelock et al., p. 6) to their recipients. Services are marketed in different ways compared to the marketing of physical products (Dawes, Dowling & Patterson, 1992; Wynstra, Axelsson and van der Valk, 2006) because of their unique characteristics, such as intangibility, inseparability of service production and consumption, perishability and heterogeneity (Zeithaml, Parasuraman & Berry, 1985). Intangibility, or the non-material character of the service act (Halinen, 1997), is the most important defining characteristic of services. Because services are intangible and invisible, they are low on search attributes (Nelson, 1970), i.e. their quality cannot be examined before purchase in the same way as the quality of physical products. Hence, the marketing of physical products has only limited value in developing insights on how to market intangibles (Sheth, 1996). Thus, a distinct body of knowledge within marketing, known as services marketing has evolved over time to guide the economic exchanges involving services.

2.3.2 Credence services

Consumers can evaluate physical products before purchase by examining the shape, weight, colour, style and size (Zeithaml, 1988) of each product. This is possible because physical products are high on *search* characteristics (Nelson, 1970) which allow a consumer to obtain a fair idea about many of their functional attributes before purchase and to infer the potential practical benefits the product might yield (Zeithaml, 1988). Such preliminary evaluation of a product's attributes facilitates choice and purchase. Unlike products, services are intangible performances, and their quality cannot be properly examined before purchase. Moreover, many services are high on experience characteristics (Nelson, 1970) and the real benefits of the service can only be known after the service is bought and experienced (e.g. concerts, haircuts, vacation trips). This prevents consumers from making reliable cost-benefit analyses before the purchase and thus creates perceived risk for consumers that they may make a wrong choice (e.g. pay more than the actual worth of the service). To make things even more difficult for consumers, the quality of some other services, known as credence services, cannot be ascertained not only before purchase, but even after the services are paid for, produced and consumed, because of their credence properties (Darby & Karni, 1973). These are services which, due to their complexity and delayed effect of the final service outcomes (Hite & Fraser, 1988, cited in Lapierre, 1997, p.378), make it difficult for buyers to evaluate service quality not only before purchase, and after some trial (Mitchell, 2003), but even after experiencing and consuming the service in full (Darby & Karni, 1973; Nayyar, 1990). The quality of credence services remains unknown well after the service is completed (Berry and Yadav, 1996), e.g. car repairs, investment advice. Thus, it can be concluded that credence service quality is imperfectly observable before purchase and credence service purchases are

affected by information asymmetry (Kirmani et al., 2000), i.e. sellers know more about the quality of the service they can provide to their buyers than buyers. The incomplete information about service quality makes it difficult for buyers to estimate expected service value and to properly compare the services offered by competing service providers. Hence, making informed purchase choices is difficult (Skaggs & Snow, 2004). Buyers looking to purchase credence services face quality uncertainty (Akerlof, 1970; Karantinou & Hogg, 2009), service performance ambiguity (Mishra, Heide & Cort, 1998) and associated purchase risk (Mitchell, 2003).

In brief, the unique characteristics of credence services underpin the consumer quality uncertainty and perceived risk in their purchases.

2.3.3 Services classifications

A wide variety of services exists. Many different classifications of services have been proposed, most of which focus on business-to-consumer (B2C) services. This may be reflective of the fact that B2C marketing has attracted significantly more research attention than B2B marketing (Peters, Pressey, Vanharanta & Johnson, 2013). As a result B2B marketing is perceived as an under-researched field of knowledge (Matthyssens & Vandenbempt, 1998; Peters et al., 2013). Consequently, fewer classifications of business services exist (Wynstra et al., 2006), indicating the need for more research in organisational buyer behaviour (Backhouse, Lugger & Koch, 2011) and B2B marketing in general.

Service classifications are based on a number of criteria such as degree of intangibility of the service offering (Shostak, 1977), the extent to which the service is mainly equipment-based versus people-based (Thomas, 1978), the extent of contact with the service provider's personnel (Chase, 1978; Lovelock et al., 2011), whether it is a discrete or a continuous service (Lovelock et al., 2011), and the degree of service complexity or divergence (i.e. how much freedom the service provider is allowed in performing the service) (Shostak, 1987) etc. As one example, Thomas (1978) classified services into two groups depending on whether they use predominantly equipment or labour to produce the service, i.e. people-based or equipment-based services. People-based services were further subdivided into services using unskilled labour, services using skilled labour (e.g. auto-mechanics, hair dressers) and professional services, or those using professional labour (e.g. lawyers, auditors, market researchers, etc.). Other studies also identified professional services as a discrete service category (e.g. Aljian & Farrell, 1998; Gummesson, 1978; Hill & Neely, 1988; Stock & Zinszer, 1987; Wilson, 1972; Wittreich, 1966). Since the focus of this study is on professional services, and more specifically, professional business services, the next section will discuss the nature and characteristics of professional business service because these characteristics have major implications for their purchase.

2.4 Professional business services

Professional Business Services are offered by professional business services firms, an "identifiable set of organisations" (Greenwood, Prakash & Deephouse, 2005, p. 661), whose value proposition is indispensable to modern organisations (Lian et al., 2007; Thakor et al., 2000). They employ highly qualified and experienced professionals (Greenwood, 2005; Lowendahl, Revang & 2001), with advanced level diagnostic and problem solving skills

(Allens Consulting, 2001) who offer expert advice about complex business problems (Allens Consulting, 2001; Lowendahl, 2001), recommend solutions for these problems and may get involved in implementing such solutions (Dawes, Dowling, Patterson, 1992; LaBahn & Kohli, 1997). They have built their expertise by means of solid education (Greenwood, 2005; Hausman, 2003) and practical experience, and hence, master a substantive body of knowledge (Gummesson, 1978; Sharma, 1994, Sharma, 1997) and thus considered experts (Emons, 1997) in their fields. The outputs of their labour are intangible services embedded with complex knowledge (Nordenflycht, 2010) or creativity (Hill et al., 2003). Examples of the former are management consulting and IT services, whereas architectural services and advertising exemplify the latter.

Professional business services are highly intangible on Shostak's (1987) continuum of tangible – intangible market propositions (Armonini, McColl, Soutar & Sweeney, 2010). They are sophisticated, knowledge intensive (Nordenflycht, 2010), non-standardised (Lian & Laing, 2007), complex performances (Shostack, 1987, Lapierre, 1997). They are advisory in nature (Gummesson, 1978) and people-based (Thomas, 1978), or people–intensive (Silvestro et al., 1992) because they depend more on the professionals' intellect and know-how than on their equipment.

The term *Professional Business Services* is adopted by the present study, and will, therefore, be used from now on to indicate all services provided by professional service firms to organisations (private and public companies, commercial and not-for-profit organisations, and government institutions). However, it should be noted that this type of service has been referred to in different ways in the literature, for example, advanced business services, or advanced producer services (Martinez-Arguelles & Rubiera-Morollon, 2006); expert services

(Emons, 1997); professional services, including B2B professional services (Thakor et al., 2000); producer services (Gummesson, 1978), business services (Wynstra et al., 2006); business and professional services (Allen Consulting, 2001); industrial professional services (Dawes, Dowling & Patterson, 1992), knowledge-intensive business services (Alvesson, 1995; Roberts, 2000; Sharma, 1997) and organisational professional services (Mitchell et al., 2003). Despite the variation in names, the literature refers to the same category of services – professional services demanded, purchased and consumed by organisational buyers.

2.4.1 Characteristics of professional business services

2.4.1.1 PBS are indispensable for their recipients

Professional business services are indispensable to their recipients because they solve important business problems that have direct implications for the performance of the core business of modern organisations (Fitzsimmons et al., 1998; LaBahn & Kohli, 1997; Lian et al., 2007; Thakor et al., 2000). Typically, clients are not able to solve these problems themselves (Hausman, 2003). Thus professional business services users rely on the service providers to craft and implement appropriate solutions to their problems. Indeed, the diagnosis of a client's business problem and its solution are dependent on "the perceptions, skills and intuition of the consultant" (Mitchell, 1998, p.330).

2.4.1.2 Professional business services are co-produced

In many services, customers participate in the service production (Seiders & Berry, 1998; Vargo & Lusch, 2004). This is especially true in professional business services. These

services are continuous in nature; that is to say that they are usually provided over periods of longer duration and involve a close interaction between service provider and service purchaser (Hausman, 2003). Many professional business services require much contact time between the service firm's consultants and the client's personnel (Lian et a.l, 2007), (e.g. management consulting, accounting, auditing and advertising). This is necessitated by the complexity of the services, and the need to customise it to suit the unique business situation of each client. In this process service provider and client jointly produce the service; hence the service outcomes are co-produced (Lovelock et al., 2011; White & Johnson, 1998). The implication is that if the customer's role in the service performance is not performed properly, e.g. the customer fails to "provide access to their person or information" (Hausman, 2003, p.228), the result of the service maybe of lesser quality (Hausman, 2003; White & al., 1998).

It follows that it is quite important to ensure the development of a good relationship and smooth cooperation (Bostrom, 1995) between the parties, based on effective communication, information sharing (West, 1997) and collaboration. The literature suggests that the development of good working relationships affects the quality of the service outcomes in advertising services (Michell, 1984; Murphy & Maynard, 1996; Wackman et al., 1987). In turn, building effective relationships between a client and a supplier is affected by the personal characteristics of the people involved (White et al., 1998; Williams et al., 1990); hence the role of interpersonal compatibility, or "chemistry" (Day et al., 2003; Dwyer, Schurr & Oh, 1987; Wackman et al., 1987), for the success of the co-produced service.

2.4.1.3 Professional business services are risky to buy

Professional business services possess strong credence properties (Hausman, 2003; Mitchell, 1998; Thakor et al., 2000), a fact that has important implications for marketing of professional business services. As discussed earlier, when purchasing such services, clients face difficulties in ascertaining the quality of the services both prior to purchase and often for some time after using them. To illustrate, taking advertising as an example of professional business services (Gummesson, 1978; Hill et al., 2003; Mitchell, 1998; Nordenflycht, 2010; Sharma, 1997), the typical outcome of the advertising service is a creative advertising campaign, but the quality of the advertising campaign cannot be properly assessed at the time the agency is hired because the service does not exist yet. Even post-purchase, when the hired agency produces an advertising campaign and launches it in various media, the quality is still hard to judge (Davies & Prince, 2010) due to the fact that the other elements of the marketing mix also affect company sales (Gummesson, 1983; Patterson, 1995, cited in Gounaris & Venetis, 2002). Hence it may be very difficult to isolate the contribution of advertising on the product's sales (Devinney & Dowling, 1999; Sharma, 1997). This underlies the well-known difficulties of marketers and agencies to determine advertising effectiveness (Bergen et al., 1992; Seggev, 1992).

The credence nature of professional services generates information asymmetries (Akerlof, 1970) between sellers and buyers of the service in relation to service quality. Sellers have more and better information about the service quality than buyers have, placing them in an advantageous position. As a consequence, buyers become vulnerable to the possibility of sellers' opportunistic behaviour (Bergen et al., 1992; Ellis & Johnson, 1993), such as misrepresentation (Eisenhardt, 1989) of their ability to deliver high service quality. In order to win the business, sellers may exaggerate their skills and expertise related to the proper performance of the job. As Davies et al. (2010) pointed out, when advertising agencies are

pitching for a new account, they may overstate their skills and promise more than they are actually capable of delivering, because they "need to create the impression that they can be safely relied on to handle their client's business" (Moeran, 2005, cited in Davies et al., 2010, p.14). Indeed, agencies have been described as "willing to do anything to win an account", and have been known to use "unorthodox tricks" and "ploys" (Wells, 1994, cited in Beard, 2002 p. 40) in account review presentations. It is, therefore, difficult for buyers to ascertain the quality of resources that suppliers claim they will allocate to the job (Barney & Hansen, 1994). Consequently, buyers experience "quality uncertainty" (Akerlof, 1970, p. 499), service performance ambiguity (Mishra et al., 1998) and adverse selection risk (Akerlof, 1970), i.e. the fear that the wrong supplier could be chosen and this could lead to unfavourable outcomes (Mitchell, 1998). The high cost and significance of professional services exacerbate this risk: as Hite, Fraser & Bellizzi (1990) pointed out "when the importance of higher quality is greater, and when greater differences in the quality levels of alternative brands exist, the risk of an unsatisfactory choice is greater". Empirical research by Mitra, Reiss & Capella (1999) discovered that the level of risk associated with purchases of credence services is higher when compared with services that possess experience or search attributes. The high cost, the importance of the service, the selection risk involved and their importance to clients underpin buyers' high involvement with the purchase of such services (Webster, 1993, Fitzsimmons et al., 1998, Hill et al., 2003). Hence, it is not surprising that top management gets involved in the selection professional service providers (Day et al., 2003). It is also natural to expect that buyers will put a fair effort in risk reduction when choosing a new supplier of professional business services (Mitchell, 1998), as outlined in the following section.

2.4.1.4 Clients engage in risk reduction activities

When service quality is imperfectly observable in the selection (i.e. purchase) stage, buyers need to make a choice among alternative service providers on the basis of indirect, or surrogate, indicators of quality. Thus, buyers in a search for a new professional business service provider look for clues that the service supplier possesses the necessary characteristics essential for performing the service properly (Bergen et al., 1992; Stiglitz, 2000). Buyers are supposed to know the nature of the tasks that need to be performed by the suppliers and the characteristics that the supplier should have in order to perform the job well, but do not know if the suppliers have these characteristics (Bergen et al., 1992). To learn about the actual characteristics and skills of the service providers, buyers search for information by checking their past performance, their formal qualifications, certifications, examples of their previous work (Harvey & Rupert, 1988), record of winning industry awards, references from previous clients (Bergen et la, 1992) and directly observe the service provider's personnel during interviews and visits to the provider's office (Bergen et al., 1992; Harvey et al., 1988).

However, direct objective evaluation of these attributes may be difficult to make (Hite et al., 1990). Hence, checking the professional business services provider's reputation, soliciting word-of-mouth references, using referrals from trusted sources, searching written reports on the provider's past activities and achievements (Harvey et al., 1988) becomes important. Service test driving (Harvey et al., 1988) may also be quite useful in such circumstances. This may involve giving the service provider a small task, similar to the tasks the job requires, and observing how it is being dealt with. For instance, in advertising services – pitching, i.e. getting the agency to develop an advertising campaign for the client's brand on the basis of a

creative brief, is an example of advertising service test driving. It helps client organisations obtain some evidence of agency's skills and expertise, and can increase the agency's perceived ability to do the job.

However, no matter how much information search is performed, due to the credence character of the service and the unique nature of the buyer's task/job, buyers will not know with certainty the service quality that an unknown professional service company will provide. This means that the client needs to buy the service at least to some extent on faith (Smith & Royne, 2010) and to rely on the service provider to work out the right solution of their problem/job. As Wittreich (1966, p.166) noted "…the buyer often feels as though he [sic] is putting his fate in the seller's hands". It is challenging for buyers to distinguish between exchange partners whose promises can be trusted, and those that only promise in order to win the business (Arrow, 1974; Williamson, 1985, cited in Barney et al., 1994). The task of the buyer is to identify those that are more trustworthy and whose promises can be relied upon. This means that perceived trustworthiness, or the confidence that the supplier will carry out its intentions (Herbig & Milewicz, 1994) becomes of critical importance.

In summary, due to the credence characteristics of such services, their importance for client's value creation, their high cost, and the uncertainty regarding the quality of the final service outcomes, selection of a new service provider is difficult and risky. Therefore service buyers need to invest time and effort in gathering information on the service provider's background, in order to reduce selection risk and to identify and hire the right for their job professional business services provider (Bergen et al., 1992).

2.5 Purchasing of professional business services

The previous section outlined the significance of professional business services to organisations, and discussed the challenges surrounding their purchase. Taking into consideration the impact of the service outcome on client's core business, and the risks involved in choosing the right supplier, one would expect to find a rich literature addressing purchasing on professional business services. However it appears that only a limited number of studies have addressed these issues (Lian et al., 2007). Table 2.2 in the Appendix section summarises some of the important scholarly publications relevant to this research and lists the professional business services supplier selection criteria found to be important. (Publications on advertising agency selection have not been included here, because they will be examined separately in a subsequent section of this Chapter).

One thing that all of these studies have in common is that they utilise factors from the category of the seller characteristics, mentioned in section 2.2 of this Chapter.

One of the important selection criteria emerging from these studies is related to service supplier reputation. Both general reputation of the service firm and reputation of individual consultants in the firm are highlighted by almost all of the studies. This is important because it communicates the essential role of reputation in the purchase of highly intangible credence goods. Virtually all studies included reputation as a primary selection factor. The buyer's prior experience with the same service firm, or the same consultant, was also mentioned in some studies (e.g. Dawes et al., 1992; Stock et al., 1987). This makes sense from a risk reduction perspective because a lot of the information asymmetry involved in selecting a new

service provider is eliminated when the supplier has been used previously, or at least has some of the consultants known to

the buyer. However, this only holds for cases where such prior experience exists and is not typical in new task purchases.

Experience, competence, knowledge and skills of the service supplier's employees are also mentioned by many of the studies, as well as relationship-building factors, e.g. interpersonal chemistry (Day et al., 2003).

In summary, this section outlined the important characteristics of professional business services and discussed how their credence character creates adverse selection risk. Professional business services are essential to value creation for the customer (Levitt, 1983, cited in Howden & Pressey, 2008), however purchasing these services is affected by information asymmetries, which translates into difficulties for buyers in selecting the right supplier and associated adverse selection risk. This led to a discussion of the need to ascertain the supplier's trustworthiness and reputation. Reputation was identified as a predictor of trustworthiness, based on a number of studies in professional business services. Overall, four constructs emerged as paramount in relation to the selection of a new professional business services: *adverse selection risk reduction, trustworthiness, reputation and skills in build relationships (interpersonal skills).*

2.6 Advertising services

Advertising services have all the distinguishing features of Professional Business Services (Gummesson, 1978; Hill & Johnson, 2004; LaBahn & Kohli, 1997), that is, they are people-based, co-produced (West, 1999), continuous, highly customised, of significant importance to clients (Hill et al., 2003, p. 222; West, 1999), and high on credence properties (Hill et al., 2003). They are also rather costly services and require financial commitments of high magnitude (Horsky, 2006, p.381). At the same time, advertising has some unique characteristics that set it apart from other services in the category. Similar to some other professional business services, such as management consulting, advertising does not have well-defined and universally accepted standards (Karantinou et al., 2009) to be used as a benchmark against which the service performance can be judged, nor has it any "concise warranties of performance" (West, 1997). This makes evaluations of agency performance more difficult for clients. The lack of established standards for evaluation of creativity adds to the performance ambiguity (Day et al., 1994) associated with advertising services and, in turn, increases the buyer uncertainty and purchase risk. In contrast, professional services like accounting and auditing are based on an established set of principles and widely accepted accounting standards, which performance can be evaluated against.

Advertising services and other similar creative professional business services have applied creativity at their core (Hill et al., 2003). They belong to the subcategory of "creative applied professional business services" (Hill et al., 2003, p. 221) which encompasses services such as architectural design, web site creation, corporate video production, and other services where creativity is the dominant feature of the proposition to clients (Hill et al., 2003). The next

section provides more detailed discussion on advertising creativity and its implications for the selection of a new agency.

2.6.1 Advertising creativity

Creativity in advertising is typically associated with an ability to generate unexpected, innovative, original and appropriate for the advertising task ideas (Sasser, Koslow & Kilgour, 2013) that can solve existing brand communication problems in new, unconventional ways (Im & Workman, 2004). Creativity is associated with the application of independent thinking (Mansfield 1980), supported by artistic ability, knowledge of consumer psychology and excellent skills in communications. Helgesen (1994, p. 44) characterised advertising creativity as "a vague in meaning, content, structure and boundaries construct, for which there is even no consensus on its operational definition". Indeed, creativity is a "notoriously difficult construct to define" (Polonsky & Waller, 1995; Reid & Rotfeld, 1976, cited in West & Ford, 2001, p.77), due to "the lack of procedural guidelines to validate the creative process, given its "prelogical and preconscious nature" (Martineau, 1957, cited in Michell, 1984, p.11).

The creative process is a random process (West, 1999) that does not lend itself easily to management. There is an inherent controversy in advertising as a business service based on creativity, because it has to marry two opposites – creative thinking, powered by free thought and unrestricted imagination, on one hand, and rational thinking of how to make the campaign increase sales by certain percentage. The effectiveness-driven, planned, managerial approach to marketing communications, driven by the need to achieve sales targets and profit margins is quite different from the world of designing creative work, often associated with

taking a creative risk (West et al., 2001) by the creative personnel. The difficulty of successfully mixing these two contradictory approaches has been documented. For example, Eighmay (1988) claimed that the demand for rationality in advertising can impact negatively on creativity. "Scientific thinking's ...relentless rationality wears down the edges of intuition, art, and taste... this triad of the creative mind..." (Eighmay, 1988, p.2). Similarly, Michell (1984) noted that the risk involved in trying to achieve advertising effectiveness may result in stifled creativity, which, in turn, may lead to advertising that does not actually work. Thus, it is hard to balance creativity on one hand, with rationality and numbers-driven management approaches to business on the other, and this may lead to tension and risk of failure during the design of an advertising campaigns (West et al., 2001). As a nonstandard, spontaneous process, creative advertising is an activity the effectiveness of which is hard to predict in advance. Creative advertising that results in unsatisfactory campaign performance is a key reason for account switching by advertisers (Dowling, 1994; Michell, 1984, 1986/7; Michell et al., 1992).

2.6.2 Risks involved in purchasing advertising services

Some of the risks involved in the purchase of advertising services, were outlined in section 2.4.4. They were associated with the possible deceptive activities employed by the advertising agencies, in order to win an account. Additional risks stem from the very nature of advertising services. These services are different from other outsourced professional business services, not only because of their higher degree of performance ambiguity (Davies & Prince, 2005) and the higher risk involved in their selection (Hill et al., 2003), but because advertising services are also "component services" (Wynstra et al., 2006, p. 479) i.e. unlike other outsourced business services (e.g. marketing research) they become, without any

transformation, part of the client's offering to its final consumers (e.g. the finished TV advertisement is shown exactly as produced by the agency to the target audiences via TV media). Even though the client is involved in all stages of the advertising service production, the creative ideas, executions and many decisions about the advertising campaign's look and feel remain largely within the control of the agency (Mitchell, 1998). Thus, the client needs to depend on the agency's expertise in communication and advertising creativity. That is, the success of an advertising campaign is highly dependent on the quality of the creative ideas and executions, designed, produced and placed in various media by the agency.

In contrast, other professional business services (e.g. accounting, IT, marketing research, management consulting), labelled instrumental services (Wynstra et al., 2006), are utilised indirectly - the service results serve as an input to shaping the thinking and decision making of managers and do not become visible to customers or other external stakeholders. Clearly, companies outsourcing creative-applied services (Hill et al., 2003) are much more dependent on their service suppliers to communicate the benefits of the brand to their customers, than firms outsourcing other professional business services. Thus, a low quality service (e.g. a poor advertising campaign) may tarnish the image of the brand and the firm's performance overall.

All these features, the significant level of perceived selection risk inherent in the hiring of professional business services providers, outlined in section 2.4, plus the added risk that creativity brings to applied creative services (Hill et al., 2003), underpin high client involvement in the purchase (Na et al., 2003) and necessitate actions that can decrease the selection risk. Hence, the main objective of the selection process is twofold: to reduce the

adverse selection risk and to estimate the expected value of the service, so that a choice of an agency from the shortlisted agencies can be made.

2.6.3 The interactive nature of advertising services and implications for agency-client relationships

As typical for most professional business services, advertising services are based on close interaction and cooperation between client and agency staff (LaBahn, 1996), aimed at developing effective creative campaigns for the client. Communication is the central tenet of any interaction (Williams et al., 1990). Agencies and clients engage (or should engage) in continuous communication in the consecutive stages of an advertising campaign development (Hill et al., 2003). The type of communication between agency and client is complex and intensive. It has been referred to as a process of "structured information transfer" (Hill & Phelan, 1999, cited in Hill et al., 2003, p.225), starting with the creative brief, its refinement, discussion of the creative ideas and executions, and media planning, etc. Frequent meetings and discussions between agency and client staff about the process of developing a new advertisement is more likely to lead to the creation of an effective campaign (Bernardin & Kemp-Robertson, 2008). Clearly, the advertising service is co-produced. Hence, the success of the service hinges on the quality of the interpersonal relationship between the agency and client staff.

The importance of establishing successful agency-client relations has been long recognised and extensively researched (e.g. Beverland & Farrelli, 2007; Crutchfield, Spake, D'Souza & Morgan, 2003; Davis & Prince, 2005; Ewing, et al., 2001; Halinen,1997; Helgesen, 1994;

Henke, 1995; Hill, 2006; Hill et al., 2003, 2004a, 2004b; LaBahn, 1996; LaBahn & Kohli, 1997; Lace, 1998; Michell, 1984, 1988; Michell & Sanders, 1995; So, 2005; Verbeke, 1989; Waller, 2004; Wackman et al., 1987; West, 1997; West & Paliwoda, 1995). There is complete agreement among these authors that building and maintaining good client-agency working relationships is essential to achieving successful advertising service outcomes (Helgesen, 1994, Michell, 1984; Wackman et al., 1987). In this context, the instrumental role of factors such as people skills (Cagley et al., 1984; Cagley, 1986), developing rapport with staff in the client organisation (Dowling, 1994, LaBahn, 1996), or having the right chemistry (Day et al., 2003, Dowling, 1994; LaBahn, 1996; Marshall & Na, 1994; Fam et al., 1999; Na et al., 2003) have been highlighted. Thus, perceptions of people skills, interpersonal compatibility and rapport (LaBahn, 1996; Dowling, 1994) are seen as early indicators that a successful client-agency relationship can be developed (Helgesen, 1994, Wackman et al., 1987). That is why, during the selection process, the advertisers need to pay special attention to evidence of signs of interpersonal compatibility and fit with the agency staff. Hiring an agency with which the client can develop good working relationships is likely to result in relationship longevity. A number of cases of decades-long agency-client relationship have been known to exist in the past (Ewing et al., 2001). However, since the 1990s a steady decline in the average agency's tenure has been reported (Ewing et al., 2001; So 2005). More recently, Turnbull & Wheeler (2014) maintained that nowadays the average tenure was less than 3 years. There may be many reasons for the shrinking length of the relationship. The way the advertising selection process is conducted is identified as one of them (ISBA, 2013 cited in Turnbull et al., 2014). As Bergen et al. (1992, p.18) point out "inadequate screening and selection procedure" can be one of the reasons for hiring a supplier that is unsuitable for the client. In the world of advertising, a mismatch between an agency and a client typically leads to conflict and results in higher agency turnover (Murphy et al., 1996). Hence, investing

in a better selection process for a new agency could alleviate the problem of frequent agency terminations (Bergen et al., 1992; Cagley et al 1984; Waller, 2004) and the burden of the agency switching costs (Horsky, 2006; Davies & Prince, 2010; Waller, 2004; West, 1997).

In brief, the way the selection process is conducted plays a major role in hiring an agency that is a good fit with the client's needs. The right choice should ensure a long-term successful client-agency relationship. However, making the right choice appears challenging, judging by the large number of untimely agency terminations (Dowling, 1994; Waller, 2004). Clearly there is scope for further improvement in the process of advertising agency selection.

2.6.4 Implications for purchasing advertising services

The purchase of advertising services is affected by their idiosyncratic features, outlined in the previous sections. First of all, the literature indicates that creativity is central to the provision of advertising services (Halinen, 1997; Hill et al., 2003), yet it is hard to evaluate the quality of an agency's creativity at the agency selection stage. Secondly, as a co-produced service, dependent on an intensive process of communication between agency and client staff (Hill et al., 2003) the success of advertising seems to hinge on the quality of the interpersonal relations between the two parties (Helgesen, 1994; Michell, 1984). As a creative service, advertising quality depends on the ability of the agency to develop successful creative marketing communication. Neither of these two factors is perfectly observable before the purchase, due to information asymmetry and the credence characteristics of the service, hence, the client's perceived adverse selection risk. The risk is further exacerbated by the fact that the service is costly (Horsky, 2006) and can potentially add or subtract substantial value

to the client's business (Rossiter et al, 2005). For these reasons, the task of the buying centre in purchasing advertising services is to try to decrease this risk, by finding as much evidence as possible that the agency is indeed able to develop quality advertising for the organisation. In addition, the client needs to ensure that the agency possesses well developed people skills and is able to establish rapport with its staff, as a cue of interpersonal fit. The implication is that during the selection process buyers need to learn through observation, background checks, and interviews with the agencies and by testing the agency (via the pitch campaign) its actual characteristics, in order to ensure that the agency satisfies the key selection criteria.

The next section reviews the literature on advertising agency selection criteria.

2.7 Advertising agency selection criteria

This section summarises the findings from the review of the relevant literature on advertising agency selection. A critical evaluation of the literature is also provided, followed by a conclusion on the current state of research in the field.

The advertising agency selection process is a multistage procedure, encompassing a number of steps. Although the steps tend to vary slightly and some countries may have rather divergent organisational agency selection practices (e.g. China, as discussed in Prendergast & Shi, 1999), overall there is an agreement about the main stages in this process (Day et al., 1994; Harvey & Ruppert, 1988; Mitchell, 1994; West, 1997; West et al., 1996; Waller & Louviere, 2002). The recognition of a need for a new agency forms the first stage of the process (Waller et al., 2002) and is followed by initial consideration set formation (Day et al., 1994). The advertiser can form the initial set of agencies in different ways, either by inviting

agencies known to the advertiser to participate in the process, or by announcing an "account review". In the latter case interested agencies will express interest and if considered suitable, may be included in the consideration set. This set is then carefully examined in order to eliminate the less appropriate applicants and to arrive to a short list of a few agencies that best satisfy the basic requirements (Day et al., 1994). In the next stage, alternative evaluation (West, 1997), the short-listed agencies are asked for a written proposal and are presented with a creative brief, as a basis on which they are required to design a sample advertising campaign for the buyer's existing or new brand. After all short-listed agencies present their advertising campaigns, the buying centre conducts a comparative evaluation and, after careful consideration, makes a decision. At the end of the process the chosen agency is offered a contract. This is a very brief overview of the selection process, outlined in order to locate the current study. It focuses on the alternative evaluation stage of the selection process and aims to identify the most influential factors that contribute to the final choice of a new agency in a new task purchase situation.

The literature in agency selection is unanimous that the process of agency selection is difficult and complex (Day et al., 2003; Smeltzen & Ogden, cited in Turnbull & Wheeler, 2014). This is the reason that some clients may outsource this task, i.e. some advertisers in search of a new agency opt to engage independent experts, known as review consultants (Beard, 2002) to conduct the agency search and selection process for the clients. In such cases, advertisers prefer to rely on account review consultants' intimate knowledge of the players in the advertising industry and their respective strengths and weaknesses and take advantage of consultants' skills in matching clients with the right agencies (Beard, 2002). Given the complexity and implications of making the right choice of an agency, it appears strange that there is a relatively small body of literature in the field. As Na & Marshall (2000,

p. 50) reflected on the state of research in the field back in 2000: "...little research has been carried out in terms of selection team structure, selection process and influence, and relevant evaluative criteria". Similarly, Waller (2004) recommended more research in the area of agency selection and evaluation. These concerns don't seem to have been heeded.

A closer look at the existing literature in the field of agency selection reveals that most of it was published in the 1980s and 1990s. The main empirical studies in the field, listed in chronological order include Cagley & Roberts (1984), Cagley (1986), Marshall & Na (1994), Dowling (1994), West (1997), Fam & Waller (1999), Lichtenthal & Shani (2000), Na & Marshall (2001), Na, Marshall & Son (2003), Palihawadana & Barnes (2005), Fam & Waller (2008). Conceptual work that also contributed to the field includes the studies of Harvey & Rupert (1988) and Waller (2004). Other publications, investigating the broader theme of agency-client relationships have also considered agency selection, but as a side issue, e.g. Halinen (1997), Helgesen (1994), Henke (1995), Michell (1984, 1988), Verbeke (1988), Wackman et al. (1987). Wills (1992) researched the role of various activities advertising agencies undertake in order to win a new account, which is also relevant to the topic, albeit indirectly. A typical approach to empirical analysis of advertising agency selection has been to use a list of selection factors, usually identified by prior research, in many cases Cagley & Roberts' (1984) list as an input to surveys. These have been administered to marketing executives dealing with agency selection in order to uncover the most important selection criteria and to rank them in order of importance. The data analysis in the majority of the studies has relied predominantly on descriptive statistics, and in some cases, the use of factor analysis to identify a small number of underlying selection factors from the lists of selection criteria (e.g. Cagley & Roberts, 1984). Table 2.3 in the Appendix provides information on these studies and their methodologies.

A number of selection criteria have emerged as being important. For example, "Quality of people assigned to the advertiser's account" is a criterion found among the first three most highly ranked selection criteria in many of the studies. Other commonly reported selection criteria are associated with "interpersonal skills", "rapport" or "relationship

skills", "compatibility of agency and client's staff", "communications skills". These findings make very good sense, given that service co-production requires close interaction and cooperation between agency and client's staff, underpinned by good relationships, as discussed previously.

A number of other criteria have also been found to be important, i.e. "agency reputation", "integrity", "recommendations by satisfied clients". These three criteria seem to relate to agency credibility and trustworthiness. "Creative ability", "quality of formal presentations", "agency's marketing and strategy development skills", "understanding of client's business" on the other hand, have to do with an agency's ability to cope with the creative brief and to present a pitch campaign. A campaign production requires close interaction and cooperation between agency and client's staff, underpinned by good relationships, as discussed previously.

Agency attributes as selection variables have been extensively used by researchers such as Cagley et al. (1984), Cagley (1986), Wackman et al. (1986); Harvey & Rupert (1988), Verbeke (1988), Marshall & Na (1994), Dowling (1994); Henke (1995); West, (1997), Fam & Waller (1999), Na & Marshall (2001) and Na, Marshall & Son (2003).

Almost all of these studies argue that interaction/relationships-related criteria are crucially important, given the communication-intensive and co-production nature of the advertising service (e.g. Cagley et al.,1984); Cagley, 1986; LaBahn & Kohli, 1997; Michell, 1984), to achieve interpersonal "chemistry" (Harvey et al., 1988; Wackman et al., 1987) and to develop rapport (Dowling, 1994; Ewing et al., 2001; Henke, 1995).

A summary of the selection criteria identified as important in agency selection is presented in Table 2.4 in the Appendix section.

Purchase-related factors like organisational compatibility have also been mentioned (e.g. Cagley et al. 1984; Marshall et al, 1994). Selection risk, and more specifically selection risk reduction, is implied, but its dominant role in the selection process has rarely been explicitly recognised, except by West (1997).

The importance of creativity as an agency selection criterion has been stressed by Cagley & Roberts (1984), Fam & Waller (1999), Dowling (1994), Henke (1995), Lace (1998), Na et al. (2003), Verbeke (1989), Wackman et al. (1987), while Helgesen (1994), who explored the link between winning advertising awards and agency performance, concluded that creativity is the "single most frequently admired agency characteristic" (Helgessen, p.44).

Agency reputation has also been mentioned by most studies (Dowling, 1994; Fam & Waller, 1999; Na et al., 2003; Wackman, 1986; West, 1997). This echoes the professional business services supplier selection literature which also provides evidence that reputation is a highly significant consideration in the selection of a professional business services supplier (e.g. Day & Barksdale, 1994; Dawes et al., 1992; Stock & Zinszer, 1987; Fitzsimmons et al., 1998; and

Mitchell, 1994.Cagley & Roberts (1986) found that quality of people assigned to the account to be the most important criterion in selecting an agency. Subsequent studies had similar findings (Fam et al., 1999; Harvey et al., 1988; Na et al., 2001; Na & et al., 2003).Verbeke (1989)

Identified agency personnel experience as one of the most highly valued by clients factor in developing client-agency relationships. Wackman et al (1987) found that personnel appearing professional and organised, and paying personal attention (to the client), was indicated as important in the selection of agency by 40% of respondents. "Quality of people" is a very general in meaning criterion, and encompasses the professional and personality characteristics of agency staff (usually staff assigned to the client's account), such as integrity, and staff qualification (e.g. creative knowledge) (Michell, 1984), professionalism (Wackman, 1987), interpersonal skills (Cagley & Roberts, 1984, Day & Barksdale, 2003). These qualities of agency staff are more difficult to assess prior to purchase without some experience in working with these people. Professionalism and job-related skills can be assessed during the pitching campaign. The formal qualifications of agency employees, and professional reputation of key agency staff can be known pre-purchase, however, one may not know in advance who is going to be assigned to the account if the agency is contracted. Often one team of highly experienced agency personnel is involved in the pitching process, but more junior staff are assigned to the account after the agency is hired (Davies & Prince, 2006; Harvey et al., 1988).

Agency competence, expertise, experience in general and in the client's line of business, as well as professionalism and leadership have also been identified as important in the agency selection literature. All studies reviewed indicated the importance of these factors, although

the names assigned to them vary slightly from article to article, but, by and large communicate the same meaning. Michell (1984) and Wackman et al (1987) highlighted leadership as essential in winning and retaining the agency, referring to Ogilvy's (1971) statement about the importance of agency managers to be able to lead.

Experience and professionalism feature strongly in the professional business services literature, with all studies confirming their crucial role for this type of service. Professionalism as a selection factor features in the research of Dowling's (1994) and Helgesen (1994). Dowling (1994) found that professional formal presentations of agencies are the third most highly ranked selection criterion. A proven track record, an agency quality underpinned by experience, and consistent quality of work was also mentioned. West (1997) maintains that experience, and examples of work (past work) are of primary concern in the selection.

Client-agency organisational fit, in terms of size and goals, has been reported as important in some studies (e.g. Michell, 1988; Harvey et al., 1988), however, other researchers found it to be of relatively lower importance in the hiring decision-making (e.g. Dowling, 1994). Michell (1988) maintained that, in the UK, there is a clear relationship between size of the company and its agency size, with larger advertisers tending to choose larger advertising agencies, and keeping them for a longer time than the industry average. One of the reasons for this, according to Michell (1988), is the ability of larger agencies to replace the account and creative teams working on the account in case the relationship became stale. This is similar to Henke's (1995) finding that if the agency is able to perform a variety of services for the client as the relationship develops, the agency is more likely to be retained longer time. The organisational ability of larger agencies to offer full service to accommodate the whole range

of promotional needs of the client provides further argument for the importance of organisational compatibility. Similar findings are discussed in Cagley et al. (1984) who concluded that "larger firms prefer associations with agencies similar in size and capability to themselves" (Cagley et al., 1984, p. 31). Finally, agency cost consciousness/cost awareness was also mentioned by three studies (Cagley et al., 1984; Dowling, 1994; Marshall et al., 1994).

In brief, a range of selection factors has been identified by prior research in advertising agency selection. Overall, from the review of this literature it appears that the most important selection criteria are associated with:

a) agency characteristics such as reputation, creativity, expertise, professionalism, management and marketing strategy skills;

b) agency attributes that can support relationship building, e.g. interpersonal compatibility with the client staff, people skills, relationship building skills, communication skills; and, to some extent,

c) organisational compatibility between client and agency (e.g. size and goals compatibility).

2.8 Summary on advertising agency selection

Previous studies have made a significant contribution to the body of knowledge in the area of advertising agency selection criteria. A large number of criteria have been identified, which provide a sound basis for further research, as well as guidance for practitioners in both agencies and client companies. However the contributions to theory development have been

limited. The main reason for this is that few of these studies relied on theory to guide their conceptual frameworks. Consequently, there is no theory emerging from these conceptual frameworks. The results of these studies have been described as little more than "a plethora of information with regards to the attributes or factors that are valued by clients when making an agency selection" (Fam et al., 1999, p. 21). Apart from this, there are also other problems with the literature, which will now be addressed.

The first issue with the extant literature concerns the strong emphasis on quantitative methodologies utilised by previous studies, that have been devoid of preceding qualitative research, except for very few studies, e.g. Fam et al. (1999) and West, (1997). Most of the contributions to advertising agency selection have applied predominantly survey-based descriptive research methodologies, aiming to rank agency selection criteria in order of importance to clients. In addition, some of them have also used factor analysis to extract a few underlying general selection factors out of these long lists. However, a critical evaluation of this literature indicates that there is an almost complete absence of exploratory research. Thus, there is a potential danger that these studies were testing assumptions and hypotheses, based on what *their authors* believed to be important selection criteria (Day et al., 2003), hence precluding any input of additional criteria that may have been suggested by the informants, had they been asked about this by means of prior qualitative research. This fact alone may to some extent undermine the validity of the studies.

Related to this is the observation that the advertising agency selection literature often fails to indicate the decision rules that were used to choose the selection criteria included in their research instruments (e.g. Cagley et al., 1984; Cagley, 1986). Day et al (2003) came to the same conclusion in relation to the broader professional business service supplier selection

literature. Also, validation of the lists of criteria is rarely conducted prior to data collection, and typically the sources of the items in these lists are only vaguely described, if at all (e.g. Cagley et al., 1984). This drawback, at least to some extent, affects a number of later studies that were based on selection criteria lists developed by Cagley et al. (1984), for example Harvey et al. (1988); Marshall et al. (1994); Na et al. (2001); Na et al. (2003).

Studies dedicated to agency selection often fail to differentiate between selection criteria and agency evaluation criteria, another problem, which, according to Day & et al. (1994, p.47) confuses rather than clarifies purchase decision making. Selection of a new agency (e.g. new task or modified rebuy) is a process conducted in the pre-relationship stage of client-agency relations (Wackman et al., 1987), when the client may not have had any prior experience with the agency, whereas, agency performance evaluation is done at least a year after the agency had been hired, in order to assess its performance and to decide whether to keep it or to replace it with a better one. Thus, there are two distinct sets of criteria used in two different points in time, before and after hiring the agency (Day et al., 1994). As Henke (1995, p.25) noted, "the evaluative framework for *hiring* is different from the evaluative framework for *firing* decisions". Yet, some authors mix these two sets. For example, the most important selection criterion identified by Cagley et al. (1984) is "quality of staff allocated to the account". However, at the selection stage it is not known which agency staff will be allocated to the account. Hence, this criterion does not have face validity in the context of agency selection. The same applies to the criteria "complete agreement about goals/objectives" and "need the agency to learn thoroughly the client's business" which appear to be post-purchase evaluation criteria. This lack of differentiation endangers the validity of their studies.

Even more problematic is the fact that subsequent research applied mixed selection/evaluation criteria lists (e.g. Cagley & Robert's list) to their investigations, as mentioned above. Day et al (1994) called for clear differentiation of the criteria, because "when distinctions are not made between the criteria used in evaluating candidates in the consideration set, and the criteria used in evaluating a professional business provider once selected, results become ambiguous" (Day et al., 1994, p. 47).

Previous research in advertising agency selection implies that a traditional information processing perspective of how consumers acquire, integrate and retrieve information guides consumer decision-making and choice (Kirmani et al., 2000; Wathne, Biong & Heide, 2001). Thus, these studies failed to account for the information asymmetric nature of markets for advertising services, where sellers have more and better information about quality of the transacted services than buyers prior to purchase. This resulted in a lack of explicit consideration of the overarching role of buyers' attempts to reduce the information asymmetry in the purchase of advertising services, and thus, to lower the selection risk by searching for information on the suppliers and their quality of their services provided in the past (Day et al., 2003). Consequently, prior studies didn't recognise the critical role of selection risk reduction as the most important influence shaping the selection process, i.e. its complexity, duration and comprehensiveness.

The fact that most of the research on agency selection was created in the 1980's and 1990's, with only few publications after 2000, creates a temporal discontinuity in this body of knowledge, an issue which needs to be addressed in order to update the knowledge in the field. Current research, which reflects the evolution in organisational purchasing in the 21st century is needed, as discussed in Chapter One. Apart from this, none of the existing studies

has used predictive research in the field of advertising agency selection. Hence it is not known if, and which, of the previously identified agency selection factors are the strongest predictors of agency choice, and what their individual contributions to agency choice might be. Besides, none of the studies has examined the simultaneous effect of the selection factors on agency choice, nor the inter-relationships among the key selection factors, by means of more sophisticated statistical techniques such as structural equation modelling. Finally, none of the studies has used an information asymmetric and signalling perspective to the selection of an agency. Although selection risk reduction is a dominant consideration for buyers in information asymmetric exchanges, the literature on advertising agency selection has not explicitly recognised this and has not used the screening and signalling perspective in studying agency selection. Clearly, a gap exists in this knowledge base, and the modest purpose of this study is to address and start filling this gap.

2.9 Theoretical foundations for the proposed study

The theories discussed in this section are particularly useful in examining the activities of buyers in the search for a new supplier of credence services, and the activities of sellers of credence services in marketing their services. Consequently, the theories help understand the behaviour of services buyers and sellers in information asymmetric markets, particularly when a new service supplier needs to be selected. As such, these theories can guide the development of the conceptual framework for this research. They have been chosen because of their potential to identify variables that might be appropriate in explaining choice in conditions of information asymmetry. These theories are the Economics of Information theory and Signalling theory. The next sections outline each of these theories and show why and how they are relevant to this research.

2.9.1 Overview of Economics of Information theory

The Economics of Information theory is a branch of economic theory, developed in the second half of the 20th century. The seminal work in this field is credited to Stigler (1961), Akerlof (1970), Darby & Karni (1973), Nelson (1970, 1974), Spence (1973), Stiglitz (1975) and Rothschild & Stiglitz (1976). The Economics of Information (EOI) theory has been considered a breakthrough in economic thought (Stiglitz, 2000), and since its inception, it has become a powerful force in explaining relationships in a range of information asymmetric markets (Riley, 2001).

One of the assumptions of classic economic theory is that all parties to an economic exchange possess complete and perfect information about market offerings (Connelly, Certo, Ireland & Reutzel, 2011) and this information is constantly being updated to reflect any changes in the product and the environments in which the economic exchange takes place (Stiglitz, 2000). However, the theory of EOI demonstrates that in markets for goods that cannot be properly evaluated prior to purchase, such as experience and credence goods, this assumption does not hold (Stiglitz, 2000). The theory explains the role of information in economic exchanges, when not all parties of the exchange are equally informed about the properties of the exchanged goods (Kirmani & Rao, 2000) prior to the purchase, because the goods lack search attributes (Nelson, 1970). As discussed in section 2.3.2, exchanges in which information on product attributes is imperfectly observable prior to purchase are information asymmetric (Bergen et al., 1992; Erdem et al., 1998; Kirmani & Rao, 2000; Mishra, Heide & Cort, 1998; Nelson, 1970, 1974, Stiglitz, 2000). Buyers in such markets are the less informed party (Kirmani et al., 2000), as they cannot verify the quality of the goods before they pay and receive the goods/services. This leads to quality uncertainty (Erdem & Swait, 1998) and

perceived purchase risk (Mitchell, 1994) and renders the purchase choice difficult (Akerlof, 1970).

In purchase situation of the kind discussed above buyers are motivated to undertake activities aimed at reducing the information asymmetry and the related adverse selection risk (Erdem et al., 1998; Mitchell, 1994). A buyer can spend time and money on obtaining information about the actual characteristics of the seller and the quality of the goods/services the seller has delivered in the past (Stiglitz, 2000) and use this information as a surrogate for supplier's goods quality, because the real quality is imperfectly observable. Thus could enable the buyer can make inferences about the future quality (Day et al., 1994; Herbig & Milewicz, 1995), based on the expectation that a supplier's past actions and/or product/service quality are predictors of future actions and product quality (Day et al., 1994; Milgrom & Roberts, 1981). When a buyer searches for information in order to understand "the true characteristics" (Bergen et al., 1992, p.6) of a supplier, the buyer is engaging in screening. Thus, *screening* is one of the possible approaches to reducing purchase risk in markets with incomplete information (Bergen et al., 1992). In addition, interpreting of signals that sellers send to the marketplace can also be part of buyers' information gathering and risk reduction strategy (Bergen et al., 1992; Martin & Camarero, 2005), as will be discussed in section 2.10.2.

Buyers can screen suppliers for necessary skills and characteristics in a number of ways: by direct observation and interviews (Bergen et al., 1992; Harvey et al., 1988), by soliciting references from third parties about the supplier (Bergen et al., 1992), or by subjecting the supplier to some examination or test for suitability for the job (Bergen et al., 1992; Stiglitz, 2001).

Search for information on goods quality and/or suppliers characteristics is an inherent feature in information asymmetric markets, especially when the purchases are very costly and have major implications for the buyer or its business (Bergen et al., 1992; Helgesen, 1994). Information is a product itself and its value is underpinned by its ability to improve decision-making, which can lead to better choices (Connelly et al., 2011). Information can be purchased or obtained in various ways, but is costly (Bergen et al., 1992). Thus, buyers in information asymmetric markets are confronted by a dilemma: should they spend money and effort to obtain information on the imperfectly observable product quality (i.e. screen), or should they take the risk and make a purchase choice without information, and then learn by experience if the quality is good or bad (Bergen et al., 1992). The theory of Information Economics predicts that when the consequences of purchasing mistakes can be costly, it makes economic sense for buyers to spend the necessary resources and to search for information about the supplier (Bergen et al., 1992) and its goods' quality. Such screening is likely to identify the more reliable suppliers and may prevent buyers from purchasing from the low quality sellers, thus reducing the adverse selection risk. For this reason, for important and costly purchases that can potentially add or subtract significant value to/from the buyer's business, buyers have an incentive to invest in search for information about the supplier's characteristics (Bergen et al., 1992; Stiglitz, 1975) and thus, to reduce the risk of losses that could cost much more than the expense of information search (Stiglitz, 1975).

Apart from screening, there is a second way in which information asymmetry in the marketplace can be reduced. This is the sending and interpretation of signals, a subject of Signalling theory, which is discussed in the next section.

2.9.2 Signalling theory

Signalling theory (ST) is part of the EOI theory (Erdem et al., 1998) and was developed and used by Spence (1973) in the context of labour economics (Connelly, Certo, Duane & Reutzel, 2011; Morris, 1987), to demonstrate how the level of education signals a job applicant's productivity to an employer who is looking to employ new staff but wants to know applicants' productivity before offering a contract.

Signals are intended to solve problems in information-asymmetric exchanges (Kirmani et al., 2000) and as "actions that parties take to reveal their true types" (Kirmani et al., 2000, p.67). In the context of economics, signals are defined as "bits of information" (Herbig, 1996, p.35) used to communicate the unobservable characteristics of an entity (e.g. product, company or person) when these characteristics are imperfectly observable. The information contained in signals can be used by firms to draw inferences about the behaviour of the signal sender (Milewicz & Herbig, 1996).

Signals are relatively easy to obtain and the receiver can often process them without difficulties, in order to infer quality and value (Herbig, Milewicz & Gulbro, 1994). As the purpose of signals is to indicate a certain property or characteristic that is not directly observable by buyers, signalling only makes sense in markets of asymmetric and imperfect information structure (Spence, 1973). Sellers send signals to convince consumers that they are trustworthy (Kimery & McCord, 2006). Signallers also hope that, upon interpreting the signals, buyers will obtain a favourable insight of the quality of signallers' goods, or signalers' characteristics (Kirmani et al., 2000).

Examples of signals of quality include advertising (Kihlstrom & Riordan, 1984; Milgrom & Roberts, 1986; Nelson, 1974), warranties (Kelley, 1988; Kirmani et al., 2000) and third-party

assurance seals (Kimery et al., 2006). These signals are under the signaller's control, and can be manipulated by him/her (Spence, 1973), in order to represent the signaler in the best possible way. Other signals arise from external to the supplier sources. For example, one of the main signals of company's characteristics is its reputation (Herbig & Milewich, 1994), as discussed in the next paragraph.

Fombrun & Shanley (1990, p.234) define company's reputation as "the sum of the individual interpretations by various stakeholders of the focal company's activities and characteristics". Signals, like reputation, that originate from outside of the company are highly effective as they are perceived to be objective and therefore more reliable than signals produced by the signaler itself. Further, signals of high quality are more effective when they cannot be easily replicated by lower quality sellers (Morris et al 1987), or when they are unique (e.g. an exceptionally creative advertising campaign). Acquiring certifications (Akerlof, 1970), or testimonies and hiring prominent experts are also examples of signals of quality (Hite et al., 1990) that suppliers can provide to the information asymmetric marketplace.

As mentioned, a signaller can alter the signal so that it can serve as more favourable indication of quality, but this usually involves costs which Spence (1973, p.358), refers to as "signalling costs". For example, a supplier working to build a strong brand name, that customers can trust, may invest in maintaining consistent product/service quality, and then communicate this quality to consumers through signals, such as clear advertising messages (Erdem et al., 1998). Similarly, a job applicant who has invested time and resources to study and obtain higher level of education, can use his/her degree as a signal to potential employers of perseverance and higher productivity (Spence, 1973), compared to applicants without education. Thus, signals of quality will differentiate signallers, or their goods in the

marketplace. For example, a firm claiming to sell high quality vacuum cleaners may offer a longer than standard warranty period to support the claim.

Spending money and effort to signal will be a preferred strategy for suppliers, whose unobservable quality is high, because signalling allows them to differentiate themselves from the low quality firms, thus increasing their chances of obtaining new business. Such companies are better off investing in signalling, rather than opting to save the signalling cost, and consequently, failing to attract new buyers (Connelly et al., 2011).

Since the seminal work by Akerlof (1970), Spence (1973), Stigler (1961), and Stiglitz (1975), a proliferation of theoretical developments and applications of the signalling phenomenon spread to many different fields of economic activity, such as accounting (e.g. Morris, 1987), finance, labour markets, insurance, industrial organization (Riley, 2001), management (Connelly et al., 2011) and marketing (e.g. Erdem et al., 1988; Kimery & McCord, 2006; Kirmani & Rao, 2000; Martin & Camarero, 2005).

Signalling theory has been employed in both consumer and B2B marketing. In the field of consumer marketing researchers have examined the role of marketing mix elements as signals. For example, Nelson (1974) examined the role of advertising as a signal in the search and experience goods categories. Price has also been tested as a signal of quality. For example, studies by Gestner (1985) showed that price acts as a signal of quality. This result was later confirmed by Tellis & Gaeth (1990) who indicated that price is a stronger predictor of quality, when quality is important and is not directly observable before purchase (Kirmani et al., 2001). However, other studies haven't been able to establish such relationships. Zeithaml (1988) maintained there was no evidence that price is a predictor of quality. Warranties have also been found to signal higher quality (Kelley, 1988), while Erdem et al.

(1998) showed that credible brand names are signals of quality and increase consumer brand equity in consumer marketing. Overall, the most frequently studied signals include brand names and brand advertising (Darwar & Parker, 1994).

Incomplete and imperfect information influences many economic exchanges, thus a diverse range of issues can be studied using EOI theory (Kirmani et al., 2000). For example, Akerlof (1970) demonstrated that in the markets for used cars, sold by private sellers, the lack of pre-purchase information on the quality leads to buyer uncertainty and purchase risk, as well as unwillingness to pay a high price for a used car, as it may turn out be a "lemon" (a low quality used car, with little useful life left). Used cars may look alike to buyers, however the actual quality is hidden from them and could vary significantly across sellers (Riley, 2001), hence the difficulty in differentiating between good and poor offerings (Akerlof, 1970). Additional examples of information asymmetries in other fields of practice include employment markets (Spence, 1973), where the employer does not know the true characteristics of the job candidates, but wants to know their productivity when hiring them; investors wanting to know the return on various classes of assets, to be able to choose the best for them investment option; insurance companies wanting to know the risk levels associated with individual policy buyers (Riley, 2001; Stiglitz, 2000). It has also been applied to study the role of brands as information signals to consumers (e.g. Erdem et al., 1998) and product standardisation in international marketing (Darwar & Parker, 1994).

2.9.3 Applicability of the Economics of Information and Signalling theories to the study

The literature review presented in the first section of this chapter showed that the marketplace for professional business services in general, and advertising services in particular, is

information asymmetric (Bergen et al., 1992; Helgesen, 1994; Skaggs & Snow, 2004; Davies & Prince 2010), due to the strong credence properties of these services. Hence, they are considered very risky to buy (Hill et al., 2003; Mitchell, Mutinho & Lewis, 2003). This will be especially true in the purchase of advertising services in a new task and modified rebuy mode of organisational buying, because the purchase risk associated with hiring a new supplier is likely to be higher compared to   a straight rebuy. Hence, the theories of EOI/screening and signalling appear to fit a new advertising agency selection situation quite well.

Advertising agencies signal their quality through a number of signalling devices. These include gaining industry accreditation (Fitzsimmons & el, 1998), winning creative advertising rewards (Helgesen, 1994), participation in competitive pitches and the quality of the competitive presentations (Dowling, 1994; Wills, 1992), using publicity (Butkys & Herpel, 1992; Dowling, 1994; Wills, 1992), lists of previous and current clients served, using direct marketing, building strong creative department (Butkys et al., 1992), agency's brochures, agency' direct mail and professional associations (Dowling, 1994). The content and appearance of agency web sites, agency size and agency billings, the size and location of their corporate headquarters, partnerships with international advertising agencies can also be signals of quality.

In the advertising industry one of the powerful signals of agency quality and consistency, which originates from outside the agency, is the agency's reputation (Dowling, 1994). There is ample evidence in the literature on advertising agency selection that agency's reputation is an important independent variable which influences agency choice (Cagley et al., 1984; Na & Marshall, 2001; Marshall & Na, 1994, Dowling, 1994; West, 1997). Reputation increases

supplier trustworthiness (Herbig et al., 1994), which in turn, is likely to decrease the perceived adverse selection risk. Because of these properties of reputation as a signal of quality and consistency, Fitzsimmons et al. (1998, p. 378) argued that supplier's "reputation and experience are perhaps the only important selection criteria" for professional business services firms.

In the early stages of the selection process, a number of agencies that meet basic selection criteria get included in the consideration set (Day et al., 1994). Upon scrutinizing (i.e. screening) these agencies the client eliminates some and shortlists only the best prospects. To come to a final choice agencies are further screened against determinant criteria (Day et al., 1994), using a number of screening devices, such as checking the history and performance of the agency, soliciting references from some of its former clients, examining the list of current clients, checking if the agency has won creative and industry awards and whether it has created successful campaigns for other clients (Dowling, 1994; Harvey et al., 1988; Helgesen, 1994). A lot can be inferred about the agency's characteristics by visiting its headquarters and talking to people different departments (Bergen et al., 1992; Dowling, 1994; Harvey et al., 1988). Checking the financial situation of the agency is also possible (Harvey et al., 1988). Probably the best way to screen the agency for necessary characteristics and skills is the pitch campaign, which can be seen as a way to test-drive the services of each agency applying for the account. Indeed, a study by Dowling (1994), in which advertising executives were asked to rank 16 sources of information about the agency, used in the selection process, indicated that formal agency's presentations were the most often used source of information (Dowling, 1994). The pitch campaign offer buyers first-hand experience of agency's ability to respond to a creative brief and to produce a sample campaign for the client's brand and is thus a very valuable screening tool, facilitating final choice of an agency.

In brief, all the three methods of decreasing information asymmetry in markets with incomplete information are present when an advertiser searches for a new agency, i.e. signals, screening and testing, all are clearly used. The predictions of EOI theory provide a useful backdrop for identifying appropriate research variables and for embedding these into research hypotheses aiming to explain advertising agency choice. Indeed, EOI constructs such as *screening for information* on *supplier's essential characteristics/past quality and trustworthiness* in view of reducing *buyer's adverse selection risk,* are highly relevant to the present study's research context. Likewise, signals like agency reputation can have the effect of reducing buyer's selection risk. On these grounds EOI theory has been chosen as an overarching theory to guide this research.

To conclude, the EOI and Signalling theories can be helpful in identifying a range of signals and screening variables that can serve as predictors to agency choice.

2.9.4 Consumer perceived value and consumer choice

Consumers think of the competing brands in a product or service category as bundles of attributes, where each attribute is represented at different level in the different brands (Lancaster, 1966). When in need of a product/service, the typical consumer examines the available market options (Bonoma & Johnston, 1979) in order to evaluate the value of each option (Nelson, 1970) and to make a choice. According to the theory of choice (Thurstone, 1927; McFadden, 1973) consumers compare the available competing brands in a product category against each other and assess their usefulness (or value) according to the consumer's own personal taste and preferences, and the consumer's constraints, such as money, time to

invest in product search, and peer pressures (Burke, Louviere, Devinney & Fine, n.d.). That is, a consumer's expected value of a brand depends on the brand's perceived physical/ functional/symbolic attributes (Erdem et al., 1998) and the consumer preferences and constraints. In brief, the theory of value and the theory of choice provide grounds to maintain that consumer purchase choice is a function of consumer perceived value.

Choice = f (perceived value)

On the grounds of the above discussion this study will use expected value of an agency future advertising services as a basis on which a choice of a new agency is made.

Prior research in marketing offers conceptual and empirical support for the causal relationship between value and purchase choice. For example, Zeithaml (1988) posited a direct causal link from perceived value to purchase, in her theoretical means-ends model of price, quality and value. A number of authors have seen value as a major determinant of consumers' shopping behaviour and product choice (e.g. Bishop, 1984; Doyle, 1984; Jacoby & Olson, 1985; Sawyer & Dickson, 1984; Schlechter, 1984, all cited in Zeithaml, 1988). Empirical research has found empirical relationship between perceived value and behavioural correlates of purchase, such as buyers' intention to buy (Grewal, Monroe & Krishnan, 1998; Dodds, Monroe & Grewal, 1991), repurchase of the brand (Oliver & Swan, 1989), brand loyalty (Sirdeshmukh, Singh & Sabol, 2002), and intention to recommend (Patterson & Spreng, 1998; Kumar & Grisaffe, 2004; Hansen, Samuelsen & Silseth, 2008). In the context of service exchanges, Cronin & Taylor (1992) emphasised the direct relationship between customer perceptions of service value and consumer purchase intentions. Essentially, this means that when a company succeeds in increasing the perceived value of its

brand over its competitors' brands, consumers will prefer to buy that brand, all other things being equal. Because perceived value drives consumer brand choice, the firm delivering more perceived value to consumers will be able to attract more sales. Indeed, research indicates that delivering superior customer value creates a powerful competitive advantage for the firm (Ravald & Grönroos, 1996; Woodruff, 1997), resulting in higher demand, sales and profits.

Perceived customer value can be useful for the present study, because it allows the selection process for a new agency to be seen as an exercise in determining, as accurately as possible, the service value that could be expected from of the advertising agencies competing for the account of the client, by judging the expected benefits an agency could deliver and the sacrifices associated with its choice.

In conclusion, this section introduced the theories that have been chosen to guide the conceptual framework development for this study, EOI theory and the related to it Signalling theory. A discussion of consumer perceived value and consumer choice was also provided.

2.10 Summary

This chapter provided a review of the literature in the contextual and theoretical domain of the study. A number of bodies of knowledge were reviewed. This helped to ascertain that using only a subset of organisational buying factors in one study is a standard practice in research in marketing. The literature review also identified important characteristics of credence services, such as professional business services, including advertising, that influence the ways in which these services are marketed. Along with these, the chapter also identified a number of major advertising agency attributes, found by previous research to be

important in the decision to select an agency. The review of the theories of information economics and signalling led to the conclusion that these theories provide a very useful foundation for developing a conceptual framework about factors predicting the choice of a credence goods supplier, while a discussion of perceived service value and consumer choice showed that consumer perceived value of a market proposition is a predictor of consumer purchase choice, a relationship which can support a conceptual model predicting agency choice.

CHAPTER 3: EXPLORATORY STUDY

3.1 Introduction

This chapter presents the exploratory research conducted for this study. Its purpose was to check if the main agency selection criteria identified through the literature review (Chapter 2) were relevant to the contemporary Australian business environment, where the main, quantitative study was to take place.

The chapter is organised as follows: first, the need for this preliminary investigation is discussed. Then, the use of exploratory research and in-depth interviews is explained, followed by a discussion of the sampling issues and the measures put in place to ensure research validity. Finally, the research findings are presented.

3.2 The need for preliminary research

The existing advertising agency selection literature can be defined as international, with most of the research originating from the USA and the UK. Single studies were also conducted in some other countries, e.g., New Zealand, The Netherlands, Australia, Canada, Hong Kong, Norway and Korea. Overall, all authors in the field seem to agree on the importance of several key agency selection criteria, as outlined in Chapter Two. The terminology used in the studies also seems to converge. However, there are two issues of concern, which

necessitate further research, if these criteria are to be used as a foundation to a new study, as discussed below.

Firstly, as mentioned, the agency selection research is dominated by studies conducted in the USA and UK. As a result, it may be somewhat risky to generalise the findings of the literature and to assume that the identified selection criteria are applicable the world over. Previous research in organisational purchasing indicates that there may be some differences in the perceived relevance of purchasing criteria across countries. For example, Page (1998) researched the most important criteria companies use to select management consultants. The research was conducted in New Zealand. The author utilised the same questionnaire, which Dawes, Dowling and Patterson (1992) used in previously investigation on the same topic, but in the context of Australia. Despite wide-spread perceptions of cultural similarity between Australia and New Zealand, including similarity in business practices (Page, 1998), the results revealed that the ranking of the selection criteria in New Zealand was different from that reported by Dawes et al. (1992) in the Australian study. It was concluded that absolute similarity between any two cultural groups should never be assumed, "no matter how alike they may appear to be" (Page 1998, p.56). Therefore, rather than making an assumption that the results of prior agency selection research will have universal applicability, this dissertation adopted a more conservative attitude, which called for a check if the previously identified agency selection criteria do indeed hold in Australia.

A second reason for the preliminary research stems from the fact that the entire body of literature on agency selection is somewhat dated, with very few studies undertaken in this century. If the present research proceeds on the assumption that all previous findings still hold today (given that the bulk of the prior research was created 15-20 or more years ago),

and does not attempt to check their relevance, this may pose a threat to the research validity. This means that the agency selection criteria drawn from the literature needed to be updated, before being used in the dissertation. To achieve this, primary data needed to be collected and analysed. Such a preliminary step was believed to ensure that this research was valid and measured what it was supposed to measure (Aaker, Kumar, Day & Leone, 2011), i.e. the factors predicting choice of an advertising agency in the contemporary Australian business context. In brief, conducting this preliminary research was necessary in order to increase the research validity of the present study.

The next section discusses the choice of an exploratory research design for this study

3.3 Exploratory research design

Exploratory research is flexible, or loosely structured investigation, aiming "to expand the understanding of a topic" (Cooper et al., 2006, p.193), or to obtain some insight into the background of the problem, which may help clarify the research problem, or identify the research variables that need to be considered (Aaker et al., 2011; Churchill & Brown, 2004). The preliminary research described in this chapter aimed to obtain an insight into the most important agency selection criteria, so that the research variables that needed to be included in the main quantitative study be clarified. Hence, an exploratory study was considered appropriate to achieve this goal.

3.4 Data collection method

The most often used qualitative data collection approach in business research includes focus groups, interviews and case studies (Aaker et al., 2011; Cooper et al., 2006). Personal, one-to-one, in-depth interviews with suitable informants was the most appropriate and practical data collection approach for studies, when the participants are business executives (Aaker et al., 2011), as in this case. In-depth interviews represent a very sound technique to gaining knowledge about a phenomenon of interest. They provide researchers with the opportunity to tap on detailed contextual information, which is not possible to achieve with other research means, such as focus groups or surveys (Gwinner, Gremler & Bitner, 1998). Additional other advantages of personal interviews include: relatively easy to organise, the respondents are not influenced by the opinion of peers (Aaker et al., 2011), confidentiality of the information disclosed by the respondents is ensured by means of compliance with an ethical research procedure (Churchill et al., 2004), which may increase the chances of agreement to participate in an interview. The respective ethics clearance documents for this study are attached in the Appendix to the thesis. The confidentiality of the disclosed information is expected to instil a sense of security in the respondents (Churchill et al., 2004), which may facilitate more open discussion, that can lead to a very good level of insight. Finally, from the informant's point of view, participating in an interview in his/her own corporate office, at a convenient time, is a relatively comfortable and acceptable way to contribute to academic research. In brief, a number of considerations dictated the choice of in-depth interviews as a data collection method. The next section presents the sampling approach to this study.

3.5 Sampling issues

The first thing that a sampling strategy needs to consider is the population to be researched (Aaker et al., 2011). In this case the population of interest consisted of Australian

organisations using advertising services on a continuous basis, and retaining one or more advertising agencies. The organisational buyers in such firms need to undertake, from time to time, a structured advertising agency selection process (i.e. an account review) and are competent to discuss all aspects of searching for, selecting, hiring and using advertising agencies. Informants from this types of companies were to be contacted and recruited to participate in the study, i.e. the sampling unit for this preliminary qualitative research was the organisation that retains and uses an advertising agency on a continuous basis. The sampling element was a senior marketing executive (e.g. marketing director), directly responsible for managing the relationships with advertising agencies. These senior executives can have different titles such as marketing directors, general managers, advertising directors, marketing communications directors/managers, advertising managers, product and brand managers (Dowling, 1994; Hill & Johnson, 2003). By virtue of their knowledge of, and first-hand experience with the subject matter of interest to this study, they qualify as key informants (Patterson & Spreng, 1997).

Given the small scale of this stage of the research, its cost limitation and time requirements, probability sampling was ruled out as very expensive and, therefore impractical. It was decided to use non-probability, judgmental sample (Aaker et al., 2011) instead. The advantage of using this sampling method is that when the sample is small, a judgemental sampling can be more reliable and representative than a probability sample (Aaker et al., 2011) as it enables the researcher to choose purposefully the subjects that best represent the population of interest.

Informants for the interviews were to be found among the typical users of continuous advertising services, as discussed above. These are medium-to-large and large organisations,

which run advertising campaigns in major media on a regular basis. Companies in New South Wales (NSW), the largest by population state in Australia, were targeted for the interviews, on the grounds that a very high proportion of large Australian companies in manufacturing, IT, mining, finance and other services are located in NSW (www.industry.nsw.gov.au).

The plan was to continue interviewing until no more new insight was derived from the last interview (Glaser & Strauss, 1967). This provision regarding number of interviews was deemed appropriate given the purpose of the research to identify the main advertising agency selection criteria in Australia and compare them with the findings of the respective literature. Thus, the final sample size was to be decided by the research results obtained during the interviews.

3.6 Validity and reliability

Validity is the extent to which a test measures what is supposed to be measured (Cooper et al., 2006), whereas reliability is concerned with the accuracy of the research procedure and whether other researchers will obtain the same results, on different occasions, using this procedure (Gabriel, 1990).

A number of measures could be put in place to ensure validity of qualitative research (Glesne, 2010). This study used triangulation (Creswell, 2007) to achieve construct validity. This involved the application of multiple methods of researching each selection criterion (prior to the interviews), because each method reveals different aspects of the empirical reality (Patton, 1999, p. 1192). Thus, various definitions of the selection criteria were compared, as found in the relevant literature and in company documents volunteered by a prominent

agency selection consultant, who was contacted for the purpose of this research. Reading up-to-date trade magazines (such as B & T Weekly, and Advertising News, Marketing, etc.) and consulting industry reports also helped to ensure the right terminology was used. This cross-examination facilitated a comparison of the meanings attributed to each of the selection criteria by relevant scholarly literature, leading trade publications, industry consultants and proprietary documents from advertiser organisations, which contributed to clarification of the meaning of each selection criterion.

Apart from this, the selected interviewees were pre-screened to ensure they were suitably qualified to provide quality information. They had to have a minimum of 4 years' experience in agency selection, and to have managed at least two formal selection processes (Dowling, 1994). All of them satisfied these conditions and, if fact, had much longer experience in selecting agencies.

Reliability was ensured by using a structured, uniform approach to interviewing. This involved using the same questions across all interviews, to allow consistent responses (Aaker et al., 2011).

An additional measure to ensure research validity was put in place by organising interviews with key informants from a variety of industries and types of businesses. In order to maximise the diversity of firms in the sample, consumer goods and consumer services companies from a range of industries were included, all of which were selected using the same participant selection criteria. Hence, it can be concluded that research validity was ensured.

3.7 In-depth interviews

To organise the interviews, the researcher contacted thirty-two companies that satisfied the above mentioned selection criteria. This involved making numerous and repeated telephone calls to gatekeepers in these firms, in an attempt to arrange an interview with a key informant. As a result, seven interviews with senior marketing executives, satisfying the participation criteria were negotiated, organised and conducted over a period of four weeks.

Each of the respondents selected for interviews had primary responsibility for conducting account reviews in his/her company and had a minimum of four years' experience as a buyer of advertising agency services. In fact, all of the respondents were marketing executives of a very high standing, with solid and quite long experience in agency-client relationships, and all other aspects of marketing management in general, and had participated in and managed account reviews multiple times.

The companies studied were from a cross-section of different consumer goods and services businesses. Five of these companies distributed their products or services nationwide, and two of them operated in one or two states of Australia. Most of the represented companies were commercial enterprises, but there was also one not-for-profit organisation. While all firms were selling primarily consumer goods or services, one had sales in both consumer and business markets. The industries represented in the sample encompassed telecommunications, health insurance, beverages, fast moving consumer goods (FMCG), food products, food additives and cultural/entertainment services. In brief, despite the small sample size, the selection of divergent companies aimed to deliver "maximum variation sampling" as

described by Glesne (2010). Such an approach provided the opportunity to tap into the advertising agency selection experiences of a diverse range of businesses.

After the seventh interview it appeared that no new input was becoming available, an indication that the research has reached saturation point (Glaser et al., 1967) and so the interviewing was discontinued.

The informants were asked to identify the most important advertising agency selection criteria that they consider when choosing a new agency. After the informant answered this question, they were prompted to think of more factors that play important roles in the decision. This approach aimed to make the interviewees provide answers in an unaided awareness mode which allows the researcher to understand not only which selection criteria were considered important, but also, how they were ranked in terms of importance, assuming the respondents mentioned the most important ones first. After completing the unaided awareness part of the interviews the researcher asked about specific criteria from the list of the most important selection criteria identified from the literature (i.e. aided awareness), provided such criteria were not mentioned by the informant during the unaided awareness discussion. Such probing helped clarify whether or not the criteria distilled from the literature continue to be considered in the selection process, which of them were still in use, as well as their relative importance in arriving to a final choice of an agency. The following section provides a discussion of the findings from the interviews.

3.8. Results

Based on the interviews one of the most important agency characteristics clients seem to look for when choosing a new agency is "strategic thinking ability", mentioned by four of the informants as the first most important selection criterion. Strategic thinking was associated with the ability of agency staff to competently analyse the marketplace, in which the client competes, i.e. to demonstrate '*understanding of our markets, competition, customers*' (direct quotes from the interviews are presented in italics), and '*understanding of our brands, ability to interpret customer insight*' (i.e. the way the agency makes use of consumer-related marketing research) and the ability "*to formulate 'strategic plans for our brand'*". The meaning of this selection factor appears identical to what prior research has called *"strategic and marketing skills of the agency"*(e.g. Fam et al., 1999; Lichtenthal & Shani, 2000; Wackman et al., 1986). An agency demonstrates these skills in the development of the creative pitch campaign. In this respect, the interviewees noted also the key role of another important criterion, '*agency ability to understand the creative brief*' and to '*negotiate it*', i.e. to ask clarification questions as to what exactly the client is looking for in a creative campaign and what the client is expecting from it. Negotiating the brief, also referred to as '*response to the brief*' is seen as an essential element of agency's overall performance in the selection process, because of the implications that an accurate understanding of the brief's requirements has for the quality of the creative campaign. The careful consideration of the creative brief by the agency pitching team, complemented by skills in strategic thinking were believed to help the agency successfully '*transform the brief into advertising*', '*design a creative campaign that helps uniquely position the brand and differentiate it from the competition*'.

Agency creativity was also a high priority selection factor identified by all informants. It was typically discussed in conjunction with the strategic thinking ability of the agency, indicating

that clients see creativity as an inseparable part of agency's ability to anylise *and* position/communicate the brand. It seems that advertisers expect their agencies to be equally good market analysts/strategists and high quality creative communicators. The impression from the interviews is that there is a strong preference for agencies that can successfully combine these two attributes.

The importance of interpersonal compatibility with the agency's staff was stressed by all interviewees. Words and phrases like '*cultural fit*', '*chemistry*', '*rapport*', '*liking*' ('*we need to like them*') were used in this context.

Cost – related factors were also mentioned as a third or fourth priority by three respondents only. The rest didn't even mention it during the unaided part of the interview. One of the interviewees (from a very large firm) made it clear that cost '*is not so important...* [it is] *the last concern, if they* [the agency] *can deliver results'*. In general, the discussion of cost related to how the agency charges the client, i.e. how the agency remuneration is structured. For example, an interviewee associated the cost/remuneration issue with the preparedness of an agency to accept some part (e.g. 15-20%) of its remuneration as performance-based i.e. conditional on achieving certain predetermined market outcomes (in line with Ellis & Johnson, 1993). In contrast, the traditional agency commission is payable in full irrespective of the success/market impact of the campaign.

Apart from the above selection criteria, other selection factors also emerged from the interviews, as outlined below:

a) agency showing willingness to understand (i.e. learn about) the client's business; showing keen interest in the business at the selection stage;

b) size of agency was mentioned by four of the seven respondents. One interviewee, representing a company with continuous advertising campaigns throughout the whole year indicated that the company only hired bigger agencies and needed reassurance that the agency had the resources (e.g. human and production-related) to *'manage the peaks and troughs; they have the capacity to handle your job'*. It appears, that due to the intensity of advertising required by this firm, agency size was considered an essential criterion and was used very early in the selection process as a prerequisite for inclusion of agencies in the consideration set;

c) opinions on agency *'accumulated experience'* and whether it *'has worked on similar accounts before'* were split; three of the clients saw value in the agency having prior experience in their line of business while the others didn't. Informants from the latter group believed that a good agency can easily and quickly get to know the business and how to advertise it;

d) media buying skills and ability to work with media;

e) lack of conflict of interest (e.g. agency working on a competitor's account).

In summary, the purpose of this exploratory research was to check if the selection criteria from the literature were applicable to the current Australian business environment. The results indicated that the selection criteria are relevant and valid in Australia. The respondents mentioned many of the criteria that the literature review identified as important, as reported in Table 2.5. That is, *agency's creativity, the quality of the agency's formal presentation, interpersonal and communication skills, the reputation of the agency, strategic and marketing skills of the agency, agency's size and organisational fit by size and agency's experience* were all identified as important. However, it appears that present day advertisers use somewhat different approach to labelling some of these criteria, as indicated above (e.g.

strategic thinking). It can be tentatively concluded that a more modern terminology is used in relation to the agency selection factors, one that focuses more on an agency strategic skills (e.g. agency strategic thinking skills). Thus an evolution in the way advertisers think about the desirable agency attributes may be taking place.

To conclude, the exploratory research indicated that when in search of a new advertising agency, Australian advertisers consider the following factors as most important in the decision to hire an advertising agency:

a) agency's strategic thinking ability;

b) its creativity;

c) its ability to respond to a brief,

d) its ability to develop a creative communication campaign, that is delivered on time, on brief and on budget;

e) evidence of interpersonal compatibility, or cultural fit;

f) the agency's reputation.

These criteria were supplemented with:

g) the structure of agency remuneration;

h) agency preparedness to accept at least some fractional performance-based payment is seen as a major agency's advantage;

i) experience with similar products (to some extent only);

j) media buying skills and ability to work with media;

k) avoidance of conflict of interest; and

l) agency size

The last two factors were used to perform initial screening of an agency's suitability and to narrow down the participants in the selection process to a smaller consideration set. This study is concerned with the second stage of the selection process, associated with the final choice of an agency from a short list, hence such factors like *agency size* and *avoiding conflict of interest* are not of primary importance in the context of this research.

The exploratory research was useful because it indicated that the advertising selection criteria used by Australian advertisers are not very different from those indicated by the international literature on agency selection. On the basis of this finding the research can now proceed with the conceptual framework development, which is presented in the next chapter.

3.9 Summary

This chapter described the preliminary exploratory study conducted for the purposes of the research, with the aim to identify the advertising selection criteria used by Australian advertisers. Exploratory qualitative research approach was used, and personal in-depth interviews were selected as the data collection method. Seven one-to-one, in-depth interviews with senior marketing executives, who had solid experience in the organisational buying of advertising services were conducted. The results indicated that Australian companies retaining advertising agencies, evaluate the potential agencies' ability to handle their accounts using a set of variables that are similar to those derived from the literature search.

CHAPTER 4: CONCEPTUAL FRAMEWORK

4.1 Introduction

Chapter Two of this thesis provided an overview of the theories offering appropriate analytical lenses for examination of advertising agency selection. It also presented a thorough review of the marketing literature relevant to the present research and identified key selection criteria which appear to be important in the context of advertising agency selection. Chapter Three outlined the exploratory research conducted to ascertain that these selection criteria are relevant to the contemporary Australian business environment. The present chapter uses a selection of these criteria as research constructs and arranges them in a conceptual model, driven by the theories discussed in Chapter Two. This chapter also develops the hypotheses depicting the relationships amongst the constructs and the conceptual definitions for each construct.

4.2 Toward a conceptual model

A number of professional business service supplier selection factors were extracted from the literature review. Section 2.5 (Chapter Two) concluded that *buyer selection risk reduction, supplier trustworthiness, supplier reputation* and *supplier skills in building relationships (interpersonal skills)* were highly relevant and important in the context of purchasing

professional business services in general and advertising agency selection, in particular. Section 2.9.2 (Chapter Two) outlined the potential of *screening for information* on *supplier essential characteristics*, *past quality* and *supplier trustworthiness,* to reduce *the selection risk.* Also, *supplier signals* of quality, like *reputation* were highlighted as instrumental in decreasing buyer selection risk, which, as was concluded in Chapter Two, is a key priority for organisational buyers in the purchase of credence services.

Consistent with these conclusions, the next paragraphs discuss the eight constructs selected as the building blocks of the conceptual framework. This research is based on abstract variables, known as constructs. A construct is defined as an explanatory variable that is not directly observable (Chronbach & Meehl, 1955)**.**

The EOI theory predicted that buyers of credence services will try to minimise the selection risk by investing in a search for information on the supplier's characteristics and service quality (Bergen et al., 2002). Through the information search, a buyer would aim to understand how trustworthy the seller is and what the seller's *true* characteristics are (Bergen et al., 2002), in order to evaluate the selection risk associated with purchasing from this seller. The buyer achieves this by screening for supplier essential characteristics and skills and by interpreting supplier signals.

In brief, the buyer (the advertiser) invests in screening to obtain the benefit of better knowing the characteristics of an agency and the degree of adverse selection risk involved in selecting it. Buyers hope to reduce the adverse selection risk by identifying an agency that poses the least risk. At the same time, getting to know more about agency characteristics and skills

impacts the advertiser perceptions of agency trustworthiness, i.e. how much this agency can be trusted to provide the service quality it claims it can provide (Herbig et al., 1994).

Also discussed in Chapter Two was the concept of Consumer Perceived Value, according to which, consumers make purchase choices on the basis of the underlying value, or usefulness of alternative market propositions. In the scenario of agency selection, the alternative market propositions are the services of the agencies that participate in the selection process. Organisational purchasers are considered rational buyers, because they "buy for economic, rather than emotional reasons" (Eggert & Ulaga, 2002, p.109) and thus, they aim to maximise the value of their purchases (Lancaster, 1966). Hence, this study treats the choice of a new agency as a positive function of the expected value of advertising services.

Value is commonly represented as a function of the benefits obtained from a product/activity and the sacrifices that buyers make in order to obtain the benefits (Doney et al., 1997; Ravald & Gronroos, 1996). Applied to the current scenario, this implies that ascertaining agency trustworthiness and lowering the selection risk are benefits obtained from screening and the interpretation of signals. Hence, these two constructs are expected to increase the value of agency services (or expected service value).

To summarise, the model in Figure 4.4 shows that signals of agency quality on one hand, and screening for agency characteristics and skills on the other hand, affect agency trustworthiness and selection risk reduction. Trustworthiness and risk reduction in turn positively affect the expected service value of agency services and value predicts choice of an agency, that is, the agency with the highest value will be offered a contract.

The next part of this chapter will develop the constructs that represent signals of agency quality and the screening variables against which the advertiser evaluates the merits of an agency, in order to judge its suitability for the job. All other constructs will be also elaborated.

4.2.1 Expected service value: dependent variable

a) Rationale for inclusion in the conceptual framework

Exchange is a core concept of marketing (Alderson, 1957; Bagozzi, 1975; Kotler, 1984, cited in Houston & Gassenheimer, 1987, p. 3) and is based on the notion of value (Bagozzi, 1975). Consumer-perceived value is at the heart of the marketing discipline. Knowing what drives consumer perceptions of value in the marketplace is critically important for all marketers, because these perceptions are considered the key determinants of purchase choice (Lancaster, 1966), and thus have major implications for company sales and profits. Understanding the drivers of consumer-perceived value is the cornerstone of marketing management not only in consumer markets, but also in B2B marketing (Anderson & Narus, 1993, cited in Lapierre, 2000). Knowing how to create consumer value helps firms successfully position and market their offerings, in order to attract buyers and create a loyal customer base, which is of strategic importance to the firm (Lapierre, 1997). According to Hamel & Prahalad (1994) creation of value is central to strategically managing the entire organisation.

Customer value has been researched by a number of marketing scholars, much more often in B2C settings, than in B2B contexts (Eggert et al., 2002). Likewise, service value has been studied predominantly in consumer markets and much less in B2B contexts (Day & Barksdale, 2003; Lapierre, 1997). According to Howden & Pressey (2008) research on value

in business markets and value creation in organisational buyer – supplier relationships is still in its infancy, and investigation of value creation in credence goods is non-existent (Howden et al., 2008). As an example, the literature search could not locate even a single study investigating the meaning, antecedents and consequences of value of advertising services. Hence the present study aims to contribute to this under-researched, but strategically important field of marketing.

Apart from this more general rationale of inclusion of expected service value in the conceptual framework, a specific rationale derives directly from the discussion of consumer perceived value and its close relationship to consumer choice. in Chapter Two. In brief, consumer's pre-purchase evaluation of this good's attributes and attribute levels (Lancaster, 1966). That is, purchase choice is a function of expected value. Consumers choose among alternative market propositions the one that offers the most usefulness or value.

Thus, this research adopted the construct expected advertising service value (referred hereinafter as expected service value, and abbreviated to ESV for convenience) as a core construct around which the conceptual framework for this model is organised. By using expected service value as the ultimate dependent variable in the model, this study builds on a sound, theoretically grounded and empirically proven causal relationship between consumer-perceived value and consumer's choice.

To summarise, the logic of the conceptual framework for this study rests on the causal relationship between consumer-perceived value and consumer purchase choice. Since consumer choice is a function of value, it will be expected that the factors that drive value of advertising services will predict the choice of an advertising agency. Hence expected service

value is the key dependent variable in this study. To clarify, expected service value refers to the predictive expectations (Patterson, Johnson & Spreng, 1997) of service value, or the anticipated value of the future service. Choice of an advertising agency is not modelled in this research (further explanation about the modelling of binary variables, like *choice*, is offered in Chapter Five). Instead, expected service value, the ultimate dependent variable, is used as a proxy for purchase choice. In brief, the inclusion of expected service value (of advertising services) in the conceptual framework is justified on theoretical and empirical grounds.

b) Definition of expected service value for this research

Value is often represented as a function of the product/service benefits and the sacrifices that buyers make in order to obtain the product/service (Doney et al., 2007; Monroe, 1991, cited in Ravald & Gronroos, 1996). Benefits of goods may include attributes such as quality, design, ease of use, convenience, esteem and fun. Sacrifices could involve monetary components (i.e., price to be paid) and non-monetary elements, such as time and effort searching and evaluating the propositions (Lapierre, 2000), effort extended in obtaining the product, as well as risk involved in the purchase (Mitchell, 1998; Gordon et al., 1993 & Jackson, et al., 1995, cited in Kumar & Grisaffe, 2004).

As a perceptual construct, value appears to hold a range of meanings among different consumers. In a seminal study on perceived value, Zeithaml (1988) found empirical evidence that consumers conceptualise value in at least four different ways. Some consumers see value as equivalent to low price; to others value is what the consumer wants in a product; yet another group thinks of value as what you receive for what you give; and finally, there are those consumers that conceptualise value as a trade-off between benefits and costs (Zeithaml,

1988). Ravald et al. (1996, p. 23) noted that a supplier's product/service has to be able to create net value for buyers. That is, customer value is created when customer-perceived benefits of obtaining and using the product/service outweigh the cost incurred in obtaining it (Slater & Narver, 2000).

In line with this definition, expected service value is defined for this research as *buyer pre-purchase assessment of the potential net value that the advertising agency appears capable to provide if hired*.

4.2.2 Lower perceived risk: dependent variable

a) Rationale for inclusion in the framework

Purchase risk is an important factor of organisational buying, that is widely recognised by the literature in organisational buyer behaviour (e.g., Agarwal & Teas, 2001; Bienstock, 2002; Campbell, 1985; Cardozo & Cagley, 1971, Johnson & Lewin, 1996; Mitchell, 1994; 1995; 1998; 1999; Mitchell et al., 2003; Nicosia & Wind, 1977; Robinson, Faris & Wind, 1967; Sheth, 1973; Webster & Wind, 1972). Purchase risk has been studied in the context of professional business services supplier selection (e.g., Hill et al., 2003; Lian et al., 2007; Martin & Camarero, 2005; Mitchell, 1998; Mitchell et al., 2003; West 1997). Decision makers have different degrees of tolerance to risk, which leads to different evaluations of the level of risk associated with a particular purchase; hence risk is a perceptual construct (Bauer, 1960, cited in Sheth, 1973).

Chapter Two proposed that the advertising agency selection process could be seen as a carefully designed exercise in adverse selection risk reduction, with the multiple stages of the process allowing for interpretation of signals of agency quality, comprehensive screening of the applicant agencies and test-driving of their services (via the creative pitch campaigns presentations) before a final choice is made. On this basis the inclusion of the construct lower perceived risk is justified.

b) Definition of lower perceived risk

The concept of risk is inherently related to consumer choice (e.g., Bauer, 1960, cited in Dowling, 1986). Sitkin & Pablo (1992, p. 10) define risk as "a characteristic of decisions . . . to which there is uncertainty about whether potentially significant and/or disappointing outcomes will be realised". Risk is associated with choices, the outcomes of which are uncertain (West & Berthon, 1997). That is, a range of possible outcomes can be anticipated, and some of the outcomes could be detrimental to consumers (Robertson, Zielinski & Ward, 1984, cited in Erdem et al., 1998).

It needs to be pointed out that the risk is always perceived, that is, it is not based on objective criteria, but on consumer's perceptions. Sheth (1973, p. 54) defines perceived risk in organisational buying as "the magnitude of adverse consequences felt by the decision maker if he makes a wrong choice and the uncertainty under which he must decide". He also pointed out that greater uncertainty in a buying situation increases the purchase risk. Peter & Ryan's (1976) definition of risk revolves around the expectation of losses associated with the purchase of a branded product. Similar to Akerlof (1970), they maintain that risk is an

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inhibitor to purchase. Hence the need to reduce the risk through screening (Bergen et al., 1992), signalling (Stiglitz, 2000) and testing in order to advance the purchase decision.

As discussed previously, a multistage supplier selection process provides the opportunity for comprehensive screening of the supplier. Thus, it can be argued that risk reduction becomes one of the dominant themes and goals of the selection process. To capture and reflect this meaning, the name of this construct in the conceptual framework is Lower Perceived Risk. The same name has been previously used by Erdem et al. (2006) in an empirical study that modelled the influence of brand equity on consumer brand choice.

For the purposes of this study lower perceived risk (LPR) is defined as *the buyer perceptions that during the progressive stages of the agency selection process, the buyer fear that the agency may not have the necessary characteristics and skills to provide adequate advertising is declining.*

4.2.3 Advertising agency perceived trustworthiness: explanatory variable

a) Rationale for inclusion in the conceptual framework

Section 2.4.6 in Chapter Two elaborated on the need of buyers of credence services to buy the service at least to some degree on faith (Smith & Royne, 2010). The reason for this is that even after careful screening, some information asymmetry remains and buyers will not know with certainty the quality of the future service. This means that to commit to the purchase, the buyer needs to have a degree of confidence in the seller's ability and willingness to deliver

the promised service quality (Herbig & Milewicz, 1995), or to put it differently, the buyer needs to believe that the supplier is trustworthy.

Supplier's trustworthiness is a subjective perceptual construct. Advertising agency trustworthiness has been used before in the literature. It was one of the five factors extracted from the 25 agency selection criteria identified as important in a survey-based study by Dowling (1994). In a conceptual article Davies & Prince (2005) differentiated between trust before the client-agency formal relationship is established, which they called pre-experiential trust, and experience-based trust. Beyond the advertising agency selection research context some scholars have examined the role of supplier's credibility, a construct very closely related to trustworthiness, in information asymmetric business settings. For example, Erdem et al. (1998) studied the role of credibility in building brand equity for experience and credence products. On the grounds of the above discussion agency trustworthiness is included in the model.

b) Definition of agency perceived trustworthiness

Consistent with Barney & Hansen (1994) and Mayer, Davis & Schoorman (1995), the present study differentiates between trust and trustworthiness. It adopts the view that trust is a characteristic of the existing (i.e., post-purchase) *relationship* between exchange parties (Barney et al., 1994) that is. the trustor and the trustee (Mayer et al., 1995). Bennett & Gabriel (2001, p. 425) maintained that "trust in a partner is likely to build up only gradually over time", once the relationship is established. With this in mind, the present study defines trust in line with Gill, Fleschner & Shachar (2006), and Barney et al. (1994) as: exchange parties' strong belief and mutual confidence that no party to an exchange will exploit

another's vulnerabilities. It follows from this definition that trust can exist if and when a relationship is already in place. Trust between organisations can emerge "only when they have successfully completed transactions in the past" (Ring & van de Ven, 1992, p. 489). Thus, past experience with a supplier can provide a foundation for the development of buyer's belief in the trustee's reliability (Gill et al., 2006).

Clearly, this description does not fit well a pre-relationship situation, because the limited interaction between a potential seller and a buyer is insufficient to generate trust as it is defined above. Furthermore, the literature has considered trustworthiness as an *attribute* of an individual exchange partner (Barney et al., 1994; Mayer et al., 1995), e.g., a product supplier, or a service provider. As a supplier's attribute trustworthiness can be examined before purchase. This means that the buyer can screen for supplier trustworthiness during the selection process, in view of finding some evidence that the supplier appears credible and could possibly be relied upon to perform as promised. Accordingly, a trustworthy party is defined in the literature as an exchange party worthy of trust (Barney et al., 1994).

Mayer et al. (1995) identified three attributes associated with trustworthiness: ability, integrity and benevolence. Herbig, Milewicz & Golden (1994) linked trustworthiness with the confidence that a party will carry out its intentions, while Erdem & Swait (2004) maintained that trustworthiness was associated with consumer perceptions that the firm is willing to carry through the promises it has made. On the basis of these conceptualisations, an advertising agency trustworthiness is defined for this study as an advertiser *pre-purchase perceptions that the advertising agency promises appear credible.*

4.2.4 Perceived agency corporate reputation: explanatory variable

a) Rationale for inclusion

As already discussed in Chapter Two, the literature provides evidence that reputation is a highly significant consideration in the selection of a professional business supplier (Day et al., 1994; Dawes et al., 1992; Fitzsimmons et al., 1998; Mitchell, 1994; Stock & Zinszser, 1987). Likewise the agency selection literature identified advertising agency reputation as one of the essential selection criteria (Cagley et al., 1984, Dowling, 1994, Fam et al., 1999; Na et al., 2003; Wackman et al., 1986; West, 1997). The professional business supplier selection and advertising agency selection literature on one hand, and the theory of EOI and signalling on the other, provide strong rationale for inclusion of the construct perceived agency corporate reputation in the framework.

b) Definition of reputation for this study

Weigelt et al. (1988, p. 443) defined reputation as "a set of attributes ascribed to a firm, inferred from the firm's past actions". Herbig et al. (1995, p. 5) interpreted the meaning of this construct as "an aggregate composite of all previous transactions over the life of an entity, a historical notion based upon the sum of the past behaviours of the entity". Rindova, Williamson, Petkova & Sever (2005, p. 1033) viewed reputation as "stakeholders' perceptions about an organization's ability to create value relative to competitors". Shapiro (1983, p. 659) maintained that "a firm has a good reputation if consumers believe its products to be of high quality".

To build a reputation of quality and reliability, a firm needs to consistently fulfil its promises over a long time. That is it may take "many repeat instances of consistent performance before the reputation is established" (Herbig, et al., 1995, p. 5). The formation of reputation is a process that can be described as follows:

> Reputation is established by the flow of information from one user to another. As such information about firm's activities, achievements, and prospects diffuse, individual interpretations aggregate into collective judgments that crystalise into reputational orderings of firms in organisational fields (DiMaggio & Powell, 1983 cited in Fombrun & Shanley, 1990, p. 234).

Research shows that companies with excellent reputations achieve sustained superior financial performance (Barney, et al., 1994; Roberts & Dowling, 2002), visibility or prominence (Rindova, et al., 2005), are held in high esteem by their publics (Anderson, Weiss, & McInnis, 1994) and typically acquire good status in the industry and the community (Petrick, 2005). Similarily, Weiss, Anderson & MacInnis (1999) associated reputation with creating an impression of high esteem, or to be held in high regard by others. That is, reputation builds value for its owner and represents an asset (Hansen, et al., 2008). What makes reputation a strong signal of company's quality and consistency is the fact that it is a signal originating not from the company itself, but from "external monitors" (Fombrun et al., 1990, p. 244). The entities outside the firm, that is, its customers, clients and the community, are more likely to convey collectively objective information about a company than the company itself. Hence, the assurance built into the construct "reputation". As Hansen et al. (2008, p. 208) note, corporate reputation is "a market validated information - a company

would not have a good reputation unless the market thought so, and vice versa". The social endorsement contained into a company's reputation makes it a really credible signal.

Based on the above discussion, perceived advertising agency reputation is defined for this study *as the organisational buyer perception of the estimation in which an advertising agency is held by its industry community, based on assessment of the agency past behaviour and achievements, and reflecting the extent to which it is successful and respected* (Weigelt et al., 1988; Fombrun, 2000; Helm, 2007; Weiss et al., 1999).

4.2.5 Perceived rapport: explanatory variable

a) Rationale for inclusion in the conceptual framework

As discussed in Section 2.6.3 of Chapter Two, the relationships between a client and its agency are portrayed in the literature as very special, and even unique. For example, Sekely & Blakney (1996, p. 23) describe the nature of this relationship as follows:

> Very few aspects of the advertising world are more sacred than the agency/client relationship. There is almost no other industry where the prosperity of a service company and its future growth are so closely linked with the success of its clients. The advertiser-agency relationship is such a critical partnership that it is often compared to a marriage.

In order to develop a successful client-agency relationship, an interpersonal compatibility, people skills and an ability to build relationships have to be in place. The role of the attributes of the people involved in agency-client dyads was outlined in Chapter Two. The problem for

advertisers in search of a new agency is how to get to know if there is interpersonal compatibility with the agency staff, from the relatively brief encounters with the people representing the agency during the selection process (Davies & Prince, 2005). Thus, the advertiser problem in the selection process is to identify those cues in agency staff behaviour, which communicate compatibility and chemistry (Day et al., 1994), as discussed in the next paragraphs.

One can establish if there is interpersonal compatibility relatively easily once in a relationship. However, it may be challenging to evaluate the potential for relationship development on the basis of the initial interaction with the agency as part of the selection process. What the client's staff participating in the selection process can assess is the rapport in the interaction that takes place during the selection process. Rapport is defined as the customer's perception of being "connected to" and having "an enjoyable interaction with one or more service provider employee" (Gremler & Gwinner, 2000, p. 83). Hollman & Kleiner (1997, p. 194) argued that "rapport is a business tool which helps in all transactions … If *people buy people first* rapport is what makes them buy" [emphasis in original]. This quote stresses the pre-eminent role of establishing rapport (or liking, perception of compatibility with another party, connectedness) as one of the cues of "interpersonal chemistry" in a new relationship. In general, client-agency working relationships develop around effective communication, and rapport is fundamental to communication (Tickle-Degnen & Rosenthal, 1990). Consequently, agency rapport-building skills (or simply agency rapport) as an extrinsic cue (Agarwal et al., 2001) will be expected to lower the selection risk Bearden et al., 1982), as it indicates the possibility of establishing good working relations and in turn, better advertising outcomes. Dowling (1994) proved empirically that clients consider agency rapport skills as the second most important selection criterion for a new agency (out of

twenty-five criteria). The same study also uncovered that lack of rapport was cited by clients as the second most important reason for rejecting applicant agencies. Dell (1991, p. 103) found that that "it" is ultimately a sense of rapport at the individual level of the customer/vendor relationship that best predicts a strong overall relationship between the customer and vendor organizations". Hence, the role of this construct as an early indication of interpersonal compatibility.

The presence or absence of rapport can be established relatively easily and quickly even during the brief interaction with the agency staff in the agency selection process. According to Tickle-Degnen et al. (1990), the existence of rapport during initial interactions is experienced as presence of positivity, or warmth and friendliness. In subsequent encounters, it is also manifest in perceptions of coordination and a sense of synchronisation among the parties.

Given the pre-purchase perspective of the present study, the inclusion of screening for agency rapport skills, demonstrated through interaction with the agency staff, as an early cue of compatibility is considered appropriate. This provides a rationale for the construct perceived agency rapport to be included in the theoretical model.

b) Definition of rapport

Rapport exists only in interactions between people. Although it is not a personal trait, some individuals can demonstrate excellent ability to develop rapport in some situations (Tickle-Degnen, et al., 1990). Rapport can be thought of as the comfortable feeling that somebody experiences in the company of certain people who appear likeable (Hollman, et al., 1997). Gremler et al. (2000, 2008) studied rapport in marketing contexts. As mentioned above, they

define rapport in service encounters along the lines of feeling connected and having enjoyable interactions with the service provider's employees. In their studies of rapport in retail settings they identified four behaviours that lead to perceptions of rapport: attentive behaviour, imitative behaviour, politeness and common grounding. Tickle-Degnen et al. (1990) associate the presence of rapport with a manifestation of positivity, attentive behaviour and perceptions of coordinated action, or common grounding. They likened the feeling of rapport to the experience of psychologically *clicking* with someone, or a feeling that the right *chemistry* is in place in the interaction. According to Hollman et al. (1997) rapport arises from empathic listening, mirroring (reflecting the behaviour of the other party) and sending non-verbal messages. Dell (1991, cited in Gremler et al., 1998) defined rapport as a feeling of comfort from the interaction. In the field of agency-client relationships LaBahn defines rapport as "the client's perception that the personal relationships have the right *chemistry* and are enjoyable" (1996, p. 30).

To summarise, it appears that rapport results from empathic and attentive listening, mirroring politeness or acknowledging similarities with another party. Rapport manifest itself in the feeling of being comfortable and enjoying the interaction, and in the belief that the interaction with the other party is pleasant. In line with the above conceptualisation of rapport, this study uses the following conceptual definition of the construct perceived agency rapport: *the organisational buyer pre-purchase perceptions that the agency staff engaged in a pleasant and enjoyable interaction with the client personnel during the selection process.*

4.2.6 Perceived service quality: explanatory variable

a) Rationale for inclusion in the conceptual framework

It was concluded in Chapter Two that *screening* for advertising agency service quality is a major avenue to decrease the information asymmetry and adverse selection risk. This section provides rationale for the inclusion of the construct advertising agency service quality in the conceptual framework.

Chapter Two also identified a number of ways clients screen for service quality, including researching the background of key personnel in the agency, examining agency past work, soliciting references from former clients, interviewing the agency, visits to agency corporate headquarters, examining the agency website, and checking if the agency have won any creative awards, which are used as surrogate signals of advertising quality (Helgesen, 1994). The client can make inferences about the future quality on the basis of such screening. However, the most important way to obtain a better idea about the agency ability to deliver quality advertising for the client brands is to test-drive the agency, via the pitch campaign (Bergen et al., 1992; Harvey et al., 1988), as discussed in the next paragraph.

The pitch campaign has evolved over time as the *ultimate screening device* in purchasing of advertising services. It is unique to the selection of advertising agencies. The pitch delivers excellent first-hand insights into the agency ability to demonstrate first and foremost two important things: a) correct understanding of the creative brief, and ability to fulfil its requirements, and, b) ability to create a successful creative advertising campaign (Hill & Johnson, 2004; results from exploratory research, see Chapter Three). These two aspects represent the two distinct service quality dimensions proposed by Gronroos (1984), *functional quality*, or how the service is performed (i.e., how the agency negotiates and

interprets the brief), and *technical quality*, or what is delivered (i.e., the service output, in this case the advertising campaign). That is, pitching is intended to allow in-depth screening for service quality, which is critically important in informational asymmetric purchases. That is why advertising agency service quality (or service quality, abbreviated to service quality) will be included in the conceptual framework.

Given the central role of quality in purchasing credence services as discussed in Chapter Two, advertising service quality should be explicitly recognised as a selection criterion, and should be used as such in research on selection of a new advertising agency. However, this is not the case in reality. A thorough search of the literature found only one empirical study that mentioned *service quality* in relation to advertising agency selection. The study was conducted by Na, Marshall & Son (1999) and aimed to predict the choice of an agency by measuring an advertiser Top of Mind Awareness of different agencies and the services that they are best known for, service quality was conceptualised as consisting of a range of services (more in line with the functional departments of an agency) such as accounts, creative, media, marketing consulting, consumer research promotional services (Na et al., 1999). However, the present study construes service quality in a different manner, thus the above-mentioned study does not offer much guidance. It was mentioned in order to highlight the lack of research in the field of advertising service quality, especially in the context of agency selection.

The reason for the notable absence of service quality in the advertising agency selection literature may be related to the fact that most existing studies base their research design on checklists of selection criteria that represent variables at attribute level, rather than constructs at a higher level of abstraction, in the sense implied by Zeithaml (1988), in her Means-End

model of service quality and value. As already discussed, the selection factors most often identified by the agency selection literature typically include items directly taken from, or echoing, the selection criteria in Cagley & Roberts (1984) and Cagley (1986). Upon factor-analysing these criteria the authors end up with a range of selection factors, but none of these have been labelled *service quality*, with the exception of the above-mentioned study by Na et al., 1999. Clearly, there is a gap in the literature on advertising agency selection, about the role of service quality as a variable of key importance. The present research endeavours to start filling this gap in marketing knowledge by including the construct service quality in the conceptual model.

b) Definition of agency service quality

Service quality is a vague, hard to define and measure concept (Brown & Swartz, 1989; Carman, 1990; Parasuraman, Zeithaml & Berry, 1985, 1988). This is due not only to the high level of abstraction and subjectivity associated with quality in general (Zeithaml, 1988), but also to the intangible character of services and especially credence services, as elaborated in Chapter Two. Similarly to value, service quality is a perceptual construct (Gronroos, 1984) because different consumers use different sets of criteria to evaluate service quality (Gummesson, 1978; Westbrook & Peterson, 1998).

Although a considerable body of research on service quality exists, most of it examines consumer services (Westbrook et al., 1998). There are, however, some studies that investigate service quality in the field of B2B services, and also in professional business services (Professional Business Services). Examples of the latter kind include Caceres et al. (2007), Freeman & Dart (1993), Na et al. (1999), Lapierre et al. (1999), Patterson & Spreng (1997),

Westbrook et al. (1998), and Woo & Ennew (2005). A review of these studies reveals that each of them defines service quality in a different way. There doesn't seem to be a consensus among researchers about the conceptual definition of service quality of professional business services. Zeithaml (1988, p. 3), defined service quality in broad terms as "the consumer's judgement about a product's overall excellence or superiority". The present research defines Advertising service quality using the Gronroos (1984) conceptualisation of service quality as a two-dimensional construct and Zeithaml's (1988) generic definition of quality. This study draws on the literature review (e.g., Hill et al., 2004) and the results of the exploratory research (Chapter Three), which indicate that clients make judgements about the potential of an agency to provide good service quality by:

a) Examining how it responds to the creative brief, how it negotiates it, and whether it is able to fulfil all the requirements of this brief. This aspect of the pitch campaign comes very close to what Gronroos (1984) labelled the *functional* aspect of service quality, or functional quality;

b) Judging the creativity of the presented pitch campaign and trying to evaluate whether it fits with their strategy for the brand and is "on brief" (Hill, et al., 2004; findings from the exploratory research described in Chapter Three)

Thus, service quality is represented in this study by means of these two dimensions: the functional dimension, termed here service delivery, or "how is the service provided?", and a technical dimension, termed here advertising campaign quality, or "what has been received from the agency as a service outcome and how good is this service outcome?" Following Zeithaml (1988) the *functional dimension* of service quality is defined as *the excellence of an agency response to the creative brief*, while *the technical dimension* is defined as *the*

excellence of an agency pitch campaign. These two dimensions will be included in the research model to represent the service quality of the pitch campaign.

4.2.7 Compensation fairness: purchase-related construct

a) Rationale for inclusion in the conceptual framework

The focus of this discussion is on price fairness as one of the important factors in the choice of a new agency. In the context of advertising services the price that the advertisers pay agencies for their services takes the form of a commission, calculated on the basis of the billed media advertising. A 15% commission has been typical for the industry overall (Horski, 2006), although there are many exceptions and variations in the size and the way that commission is calculated. Other alternative ways to pay agencies, such as hourly fees, fixed project fees (Spake et al., 1999) and performance-based agency remuneration (Seggev, 1992) have gained popularity in the last decades. Combinations of various remuneration methods are also possible (Spake et al., 1999).

As discussed previously mentioned before, in the context of value, quality and price are the main antecedents to value (Dodds et al., 1991; Parasuraman & Grewal, 2000; Lapierre, 2000). In the field of professional business services, quality is widely recognised as the most significant and critical benefit that builds value for buyers. However, when it comes to price the situation is different. When outsourcing of Professional Business Services is discussed, price appears to be less pronounced as an antecedent to value, as will be elaborated in the next paragraph.

An extensive search of the agency selection literature could not locate any study that investigates the role of price in the agency selection decision-making process. In fact, price was mentioned as one of the selection criteria in only very few of the reviewed studies (e.g., West, 1997), and none of studies discussed cost as a major determinant of agency choice. West & Paliwoda (1996) mentioned a related selection criterion, *price competitiveness*, sixth in order of importance out of a total of seven factors. Cagley et al. (1984) also included *cost consciousness* and *tailoring of compensation plans to fit advertiser needs*, as criterion of medium importance. Similarly, Dowling (1994) found that strong *cost awareness* is a selection factor of medium importance. Finally, agency *cost efficiency* appears to be a factor in the selection of agencies in Korea (Na, et al., 2001). In general however, the price an agency charges is barely mentioned in the agency selection literature.

Similarly, in the B2B services marketing literature and Professional Business Services supplier selection literature, the role of price is downplayed. For example, empirical evidence from the field of B2B services, obtained by Desarbo, Jedidi & Sinha (2001) indicates that for a large proportion of consumers (almost 50% in their sample) value perceptions were based entirely on service quality, and price was totally disregarded.

These examples leave the impression that for buyers of Professional Business Services the impact of the service on their business is a more important selection criterion than price. This appears to be also the case in creative applied Professional Business Services. Sharma (1994, p. 20) argued that "the greater the elements of creativeness and originality [of the professional service], the less suitable is the dependence on price as the basis for reaching the decision to purchase". Similarly, in their research on selection of Professional Business

Services suppliers Stock & Zinszer (1987) noted that the higher the potential of the service is to create value to consumer, the less suitable is a reliance on price.

Other studies in professional services value have simply ignored price in their models (e.g., Patterson & Spreng, 1997, in the context of business consulting services; Hansen, et al., 2008, in the context of B2B telephone services). It appears that the higher the service is on credence and/or creative attributes, the less relevant the price of the service is as a determinant of the overall service value.

A similar de-emphasis on price as a selection criterion can also be found in the industrial purchasing literature. For example, Spekman (1988, p.75) argued that since some of the suppliers are in fact considered strategic partners, their "total purchasing performance is being evaluated less on price reduction, and other measures of purchasing efficiency, and more on return on corporate assets, demonstrable quality improvement, competitive position in world markets and total cost of manufacturing". The same author claims also that such an approach leads to movement away from price as a selection criterion. This could also be relevant in the field of Professional Business Services if supplier-seller relationships are viewed as strategic partnerships.

In brief, the B2B marketing literature on supplier selection in business services and Professional Business Services seems to indicate a trend toward a movement away from price-based selection criteria in favour of quality and value adding-related attributes of the service. The same idea was also echoed in the interviews detailed in the exploratory research phase of this study.

Another noticeable trend in the same context is that sometimes instead of focusing on price per se, scholars examine compensation fairness. Fair price is seen as important in professional business services (Hansen et al., 2008), and especially in advertising services (LaBahn, 1996; Verbeke, 1989; Wackman. et al., 1986). For example, Wackman et al. (1986) identified that advertisers' perceptions that their agency charges fairly for its services was the second most important predictor of client overall satisfaction with its agency. The last few decades have seen a significant change in how agency remuneration is perceived (Seggev, 1992). More and more advertisers believe that the traditional way of remunerating the agency, the commission system, is inadequate and tends to unfairly and disproportionally enrich agencies, often way out of line with the actual effectiveness of their creative campaigns (Seggev, 1992). As a result advertising becomes too expensive (LaBahn, 1996). Under the traditional commission –based and fee based compensation methods the agency receives its pay once the campaign is produced and launched. This type of payment is referred to as behaviour-based (Ellis & Johnson, 1993; Seggev, 1992), in contrast to the performance-based remuneration, which is tied to the achievement of predetermined outcomes (Bergen, et al., 1992). Behaviour-based remuneration systems may make a client vulnerable to moral hazard (Devinney & Dowling, 1999; Ellis et al., 1993), associated with the risk that the agency does not put its best effort in performing the client job, leading to less than optimal results for the client, as a result. In the context of agency-client relations, the behaviour-based remuneration may also result in an additional risk for the client. Since the agency commission is calculated on the basis of the media billings, the agency best interest may dictate it to recommend more advertising dollars of the client's promotional budget to be directed to media advertising rather than to other promotional mix activities, such as sales promotions or public relations. This may not be in the best interest of the promoted brand and may cost the client waisted financial resources (Devinney et al., 1999). Clearly, behaviour-

based remuneration can be risky for clients and, not surprisingly, has caused a widespread dissatisfaction with the commission-based agency remuneration (Beard, 2002). The debate about the fairness of the agency commission has been reflected in the scholarly literature as discussed in the next section.

The agency commission has been discussed as far back as the 1940s (e.g. Haase, Lockley & Digges, 1934; Hotchkiss, 1933, both cited in Waller, 2004). Hotz, Ryan & Shanklin (1982) also flagged the problems it created. Seggev (1992) claimed that clients' dissatisfaction with agency compensation was common in the industry. Increasingly, advertisers have been trying to negotiate at least partial performance-based pay (Lace, 1998; Seggev, 1992; findings of the exploratory research, see Chapter 3). However, none of these new approaches offers perfect solution to the agency pay problem, and in fact some authors believe they may be making the issue of agency remuneration even more complex (Beard, 2002). As an example, performance-based payment systems require an accurate estimating of the contribution advertising makes toward achieving advertiser's overall business outcomes (Seggev, 1992). As discussed in Chapter Two, it is difficult to isolate the impact of advertising alone. That is, there is no easy solution to the problems associated with agency remuneration.

It makes good sense then, to conclude that during the selection process the advertisers judge the pay that the agency demands as more or less fair. It can be expected that when choosing a new agency, clients would be concerned with agency remuneration structure and whether or not the latter appears to be fair. Thus, fairness of agency compensation, or compensation fairness is a construct that is relevant to the selection of a new agency. Price fairness is underpinned by the principle of distributive justice (Kahneman, Knetsch, & Thaler, 1986, cited in Hansen, et al., 2008). This principle is based on the exchange partners' expectations

of equal gains and losses from an exchange (Homans, 1961, cited in Xia, Monroe & Cox, 2004). According to the principle of distributive justice the buyer is entitled to a fair customer reference cost, while the supplier is entitled to a fair supplier reference profit (Hansen et al., 2008). Problems arise when economic exchanges are perceived as unfair by one of the parties because its gains are judged to be unequal in comparison to the gains of the other party, as in the advertising industry. Hence, the importance of price fairness.

This discussion provides support for the inclusion of the construct agency perceived compensation fairness, or compensation fairness in the conceptual framework. Additional arguments for such inclusion come from prior research on agency-client relations. For example, LaBahn (1996) employed a similar construct in a model examining advertiser perceptions of agency fair compensation, confidentiality and rapport. The study found evidence that Fair Compensation increases client trust in the agency. This highlights the relevance of the construct compensation fairness in the context of agency selection and provides rationale for its inclusion in the conceptual framework.

c) *Definition of compensation fairness*

Fairness has been defined as a judgment of whether an outcome and/or the process to reach an outcome, is reasonable, acceptable, or just (Bolton, Warlop & Alba, 2003, cited in Xia et al., 2004). In the advertising services field of study, Wackman et al. (1987) and LaBahn (1996) defined fair agency compensation as the client perception that the agency charges fairly for its services. In line with these definitions, and taking into consideration the pre-purchase context of the present study, compensation fairness is defined as *an advertiser pre-*

purchase perception that the compensation demanded by the agency is reasonable, justifiable and acceptable.

In summary, this section provided a rationale for the inclusion of eight research constructs in the conceptual framework and developed conceptual definitions for each of them. These constructs represent three classes of variables:

a) the dependent variable: expected service value, as a proxy for choice of a new agency;

b) seller's signals: agency reputation;

c) advertiser screening variables: agency rapport, agency trustworthiness and agency service quality, the latter represented by its two dimensions, service delivery and campaign quality;

d) purchase-related variables: lower selection risk and compensation fairness.

These groups of factors represent essential organisational buying influences, as outlined in Chapter Two, section 2.2. The selection of the above listed research variables is consistent with the theory of Information Economics, identified in Chapter Two as suitable to support the development of the conceptual framework. The selection of expected service value as the ultimate dependent variable of the conceptual framework is consistent with the theory of choice (Thurstone, 1927; McFadden, 1973). The next section draws on nomological nets of these variables to develop the research hypotheses.

4.3 Hypotheses Development

This section arranges the selected research constructs in a conceptual framework driven by the predictions of the theories discussed in Chapter Two. It formulates a number of research hypotheses, based on the causal relationships among the constructs. This leads to the development of the research model.

From this section on the adjective "perceived" in the name of the research variables will be omitted for the purpose of simplicity.

4.3.1 Hypotheses about agency reputation

Chapter Two established that the purchase of professional business services involves high levels of risk (Mitchell 1998). Hill et al. (2003) found empirical evidence that buyers of creative applied creative professional business services (e.g., advertising, architectural services) experience even higher purchase risk compared to other PB services. This motivates organisational buyers to engage in risk reduction behaviour, which usually takes the shape of examining supplier's signals and screening for essential service provider's characteristics. Earlier in this chapter it was demonstrated that corporate reputation is one of the main signals of quality and reliability in information asymmetric exchanges. As companies with good reputations are motivated to maintain it, buyers can expect that reputable companies will deliver the service quality that they promise they will. In turn, these expectations lower buyer's selection risk. Indeed, prior research shows that signals like reputation reduce the purchase risk (e.g., Bearden, et al., 1982). Purchasing a well-known brand with a reputation for quality can be interpreted as "a consumer's risk-reduction strategy" (Bearden et al., 1982, p. 230). Similarly, Fitzsimmons et al. (1998) proposed that corporate reputation decreases the outsourcing risk in Professional Business Services. Another study of the relationship between

firm's reputation and financial performance, Roberts and Dowling (2002), found empirical evidence that strong reputation decreases the risks in bilateral corporate business relations because business partners are "less concerned about contractual hazards when transacting with high-reputation firms" (p. 1079).

Theoretical support for the influence of reputation, as a signal of quality, which decreases the selection risk in information asymmetric exchanges derives from the Information Economics and Signalling theories (Akerlof, 1970; Spence, 1973; Rothschild, et al., 1976; Bergen, et al., 1992), as outlined in Chapter Two of this thesis. On these theoretical and empirical grounds, it can be hypothesised that in the selection of a new advertising agency:

H1: The higher an advertising agency reputation, the lower the risk of selecting the agency

Reputation is not only an indication of how the company has behaved in the past, but also a predictor of how it is likely to behave in the future (Kirmani, et al., 2000). This means that reputation promotes a predictable and reliable behaviour from its owner, thus increasing the owner's trustworthiness, or credibility (Herbig, et al., 1994). Prior research suggests that perceptions of an entity's trustworthiness are influenced by the entity's ability, integrity and benevolence (Butler, 1991; Gabarro, 1978; Good, 1988; Johnson-George & Swap, 1982; Kee & Knox, 1970; Larzelere & Huston, 1980; Lieberman, 1981; Mayer, et al., 1995; Ring & Van De Ven, 1992; Solomon, 1960; Strickland, 1958, all cited in Mayer et al., 1995). The possession of these trustworthy attributes by an exchange party can be identified from past experience with this party, if such exists. In the absence of prior experience (a situation descriptive of this research), one possible way is to infer them from the party's reputation (Lewicki & Weithoff, 2000).

The link between reputation and trustworthiness can also be demonstrated in an alternative way. Reputation appears to be positively associated with corporate credibility (Bearden et al., 1982; Ganesan, 1994; Herbig et al., 1995). Credibility is defined as a party's confidence that an entity will actually carry out its intentions or promises (Herbig, et al., 1994) or a party's confidence that another party is trustworthy (Herbig et al., 1994) Other authors treat trustworthiness as a dimension of credibility (e.g. Newel & Goldsmith, 1997). In any case, trustworthiness and credibility are very closely related constructs that overlap in meaning Hence, it is logical to assume that factors increasing credibility (such as corporate reputation) will also act to increase trustworthiness. Indeed, the proposition that an entity's reputation builds the entity's trustworthiness has an intuitive appeal. This provides grounds for the formulation of the next hypothesis:

H2: The higher an advertising agency reputation, the higher its trustworthiness

It was demonstrated earlier that in information asymmetric exchanges corporate reputation is an important signal of quality to potential organisational buyers (Shapiro, 1983) , especially in markets for high involvement credence goods and services, such as advertising services, management consulting, auditing and architectural services (e.g., Cagley & Roberts 1984, Dowling, 1994, Dawes et al., 1992; West, 1997). It seems that, everything else being equal, the reputable professional business supplier delivers more expected value to the client than a less reputable one. This is a consequence of the believability of the reputable supplier's promises about quality. That is, good reputation per se is an additional benefit for the buyer, and as such is likely to increase the expected value of the supplier's overall proposition. As discussed before, value drives purchase choice. Translated to the current context this means

that in markets for credence goods where quality is more important than price, it is more likely that service suppliers with higher reputation will be selected more often, than suppliers with lower reputation. Within the advertising industry for example, the financial success of agencies with strong reputations such as JWT, Dentsu, Clemenger BBDO, M & C Saatchi and McCann is proof of the above. That is, high reputation agencies are seen as offering more value to clients and therefore tend to attract more customers, which in turn makes these agencies even stronger financially.

According to the theory of value, any benefit of a market proposition can increase the value of this proposition. In information asymmetric markets supplier's reputation is an important benefit for the buyer, as discussed prior. This means there is theoretical support for a positive association between advertising agency reputation and service value. In support of this, Hansen et al. (2008) found empirical evidence that reputation increases service value in B2B service exchanges. On these grounds the next hypothesis can be formulated:

H3: There is a positive relationship between an agency reputation and its expected service value

4.3.2 Hypotheses about rapport

Earlier in this chapter, the theoretical rationale for positing a causal chain of effects among *rapport → good working relationships → expectations of better advertising outcomes → lower risk* were explicated (see Figure 4.4). Empirical support for these casual links was also provided. Additionally, other studies in B2B marketing have shown that relationship variables, such as rapport, likeability, attraction, interpersonal compatibility, cultural similarity and *chemistry* play a role in lowering the client uncertainty and purchase risk that is

inherent in outsourcing credence services. For example, Haytko (2004) conducted empirical research on the nature of the relationships between agencies and clients. She discovered that the development of solid personal relations between the teams of the agency and client "can be seen as a way of reducing both social and economic uncertainty for the individual and the firm" (Haytko, 2004, p. 327). Similarly, West (1997, p. 4) argued that "sociality is a well-known phenomenon in the agency-client relationship and serves as a risk reduction mechanism". This thesis established earlier that in the pre-relationship stages of agency-client interactions, the existence of rapport can be an indication of interpersonal compatibility and respectively, that good relationships with the particular agency are possible. As discussed earlier in this chapter, in the B2B context, rapport has been found to best predict overall relationships between the parties of an exchange (e.g., Dell, 1991). On the grounds of this evidence and the preceding discussion, it can be hypothesised that:

H4: The higher an advertising agency rapport, the lower the risk of selecting the agency.

Empirical evidence from prior research shows that rapport increases trust. Sarker, Echambadi, Cavusgil & Aulakh (2001) discovered that relationship factors, such as cultural compatibility, enhance mutual trust and commitment in alliance partners. Likewise, LaBahn (1996) found empirical evidence for strong positive relationships between advertising agency rapport and client trust in the agency, within an existing client-agency relationship. This effect is understandable. Clients are more likely to trust those agencies whose staff appear polite, personable, appear interested in the client business, and give more attention to the client's people and tasks.

Research related to Professional Business Services provides similar evidence. For example, Day & Barksdale (2003) studied the selection of suppliers of architectural and engineering services and identified that personal *chemistry* increases supplier's trustworthiness. As discussed, rapport and interpersonal chemistry are positively correlated constructs. This study uses screening for rapport between the client and the agency people during the selection process as a cue of interpersonal compatibility. Hence, if personal chemistry is proven to increase supplier's trustworthiness, it is logical to assume that the same will also be true for its positive correlate, rapport. In support of such proposition, Ross & Wieland (1996, cited in Jap, Robertson, & Hamilton, 2011, p. 1611) claimed that rapport is foundational to the development of trust, and that trust and trustworthiness are closely and positively related. All this evidence provides ground for the formulation of the following hypothesis:

H5: The higher an advertising agency rapport with the advertiser's staff, the higher its trustworthiness

Rapport is treated in this study as a cue of interpersonal compatibility between the people in the agency and the advertiser's staff. Since interpersonal compatibility or chemistry is considered so beneficial for developing successful agency-client relations, by extension, rapport is also beneficial. Hence, screening for evidence of rapport and finding such evidence is likely to increase the expected value of an agency services. On the basis of this it can be claimed that agencies that are able to develop rapport with the advertiser's staff, will be seen as offering more value to advertisers than agencies that do not. As such the former are more likely to be chosen and hired, ceteris paribus. Even though no previous empirical research was found that proves rapport to be positively related to value, such a hypothesis is plausible for the reasons elaborated above. In addition, rapport is a relational variable and relational

variables have been shown to increase value of Professional Business Services (Lapierre, 1997).Hence the following hypothesis is proposed by the present research:

H6: There is a positive relationship between an agency rapport with the advertiser's staff and the agency expected service value

4.3.3 Hypotheses about service delivery and campaign quality

Service quality is conceptualised by this research as a two-dimensional variable, consisting of service delivery and campaign quality, following Gronroos (1984). Hence, service quality will be represented in the conceptual framework by its two dimensions, rather than as a second order construct. This approach has been chosen because it provides the opportunity to explore how each of the two dimensions relates to and affects the variables in the model to which it is causally linked.

As mentioned in section 4.2.6, research in marketing and management has consistently identified quality as the main benefit that builds value. The present conceptual framework build upon the theoretical proposition that service quality increases service value (Zeithaml, 1988), as discussed in Chapter Two. Moreover, it draws on empirical support for such a proposition from a massive body of research. For example, the papers of Grewal, Monroe & Krishnan (1998), Cronin, Brady, Brand, Hightower & Shemwell (1997), Bolton & Drew (1991), Hartline & Jones (1996) and Sweeny, Soutar & Johnson (1999) all provide empirical proof that service quality increases ESV. More specifically in the field of Professional Business Services, evidence that service quality increases ESV can be found in Lapierre (2000), Lam et al. (2004), Ruiz et al. (2008) and Kumar & Grisaffe (2004). Hence, it is proposed that:

H7: There is a positive relationship between an agency service delivery and its expected service value

H8: There is a positive relationship between an agency campaign quality and its expected service value

Service quality in the present research is a screening variable. As mentioned before, the selection process can be conceptualised as a carefully designed exercise of risk reduction. The cornerstone of the entire selection process is the competitive pitch, which provides advertisers with a first-hand experience of how well the agency could advertise the company's brand. Advertisers are likely to hire agencies that are able to demonstrate a high level of service quality during the selection process, as this will convince them that hiring mistakes are less likely. It is argued here therefore, that perceptions of agency service quality will directly affect the purchase risk (Mitchell, 1995).

H9: An agency service delivery is positively related to lower selection risk

H10: An agency campaign quality is positively related to lower selection risk

Following Zeithaml (1988), service quality was defined as the perceived performance superiority. It was already proposed that service quality will lower the purchase risk and will increase service value. This thesis also posits that the two dimensions of service quality will impact positively on agency trustworthiness. Empirical support for such a proposition is provided by Gounaris & Venetis (2002), who found evidence that advertising agency service

quality increases client trust, a close relative and positive correlate to trustworthiness, as discussed earlier in this chapter. On these grounds it is proposed that:

H11: An agency service delivery is positively related to the agency trustworthiness

H12: The higher an agency campaign quality the higher its trustworthiness

The two dimensions of service quality are service delivery, or what Gronroos calls functional quality (i.e., how the service is performed), and technical quality (i.e., the outcome of the service). In the context of advertising services, these translate into service delivery and campaign quality, as elaborated earlier in this chapter. Based on the feedback from the interviews conducted for the purposes of this research, it is also posited that service delivery will be positively related to campaign quality. Indeed, the way the advertising agency staff interpreted the creative brief, the way it negotiated the brief, and fulfilled the brief requirements is reflected in the quality of the final outcome of the service, the advertising campaign. For example, the degree to which the agency properly understands the current marketing and promotional strategy of the brand, implied by the creative brief, and the way in which the campaign targets achievement of the client communication objectives is reflected in the proposed agency creative campaign (the pitch campaign). Clearly, the way the agency responds to the brief, or deals with the brief, will have implications for the campaign quality. Hence it is proposed that:

H13: Service delivery is positively related to the campaign quality

4.3.4 Hypotheses about compensation fairness

Client's pre-purchase perceptions of fair compensation will be expected to increase client trustworthiness in the agency. Compensation which realistically reflects the underlying costs of the agency, plus a reasonable profit, will be seen by clients as a considerate and sound proposition, and is likely to be judged as equitable (Ruiz et al., 2008). An agency that can offer a fair compensation is likely to be seen as credible because of the perceived distributive justice in its dealings with business partners. As a result such an agency will be perceived as more trustworthy. Empirical support for such a hypothesis is found in the study of LaBahn (1996), who examined the role of fair compensation within agency-client relations and found client perception that the agency is demanding fair compensation to increase client trust in the agency, a positive correlate of trustworthiness. Hence, this research posits that:

H14: The agency compensation fairness is positively associated with Agency trustworthiness.

A seller may experience some negative consequences if buyers perceive the seller's price as unfair (Xia et al., 2004), for example, the buyer may decide to purchase from an alternative seller. The reason for this is that buyers may believe the seller obtains more benefits for itself from the exchange, as discussed in the context of fair agency remuneration. This may undermine the value of the entire proposition of the seller in the buyer's eyes. That is, distributive fairness impacts on expected service value (Patterson, et al., 1997). The distribution of benefits and costs between the parties of an exchange affects transaction fairness, which subsequently impacts on the overall value of the transaction (Hansen, et al., 2008). Xia et al. (2004) proposed a direct positive association between fair compensation and expected service value. This provides grounds to suggest that compensation fairness is positively related to the expected advertising service value. Another study, Ruiz et al. (2008,

p. 347) argues that service equity, or fairness "provides a salient dimension of service value and a path to value creation for the customer". Further support for such relationship can be derived from studies that have shown fairness to be a driver of customer satisfaction (e.g., Campbell 1999; Homburg, Hoyer, & Koschate, 2005; Sinha & Batra 1999, cited in Bolton & Alba, 2006; Patterson, Johnson, & Spreng, 1997) and buying intentions (Campbell, 1999). As already discussed, satisfaction and buying intentions are positively related to value constructs; hence their nomological nets are likely to be also similarly related. That is, if a variable increases satisfaction and buying intentions it is likely to also increase value. Hence the next hypothesis:

H15: the agency compensation fairness is positively associated with this agency expected service value

4.3.6 Hypotheses about trustworthiness

Prior research offers empirical evidence that a supplier's credibility lowers buyer uncertainty and purchase risk, which in turn makes it easier for the buyer to commit to the exchange (e.g., Morgan et al., 1994; Ring & Van de Ven, 1992, cited in Young & Albaum, 2003). Erdem et al. (1998) showed in the context of consumer goods that brand credibility, a correlate of trustworthiness, decreases the risk of purchasing the brand. This relationship is particularly relevant in professional services, because they are high on credence properties and thus seen as risky to buy (Iacobucci, 1992; Thakor et al., 2000, cited in Lian et al., 2007; Hill et al., 2003). Lian et al. (2007) argued that trust is a critical mechanism by which organisations reduce uncertainty and risk inherent in market exchanges. Likewise, this research maintains that the same also holds for trustworthiness. On these grounds it is proposed that:

H16: The higher the agency trustworthiness, the lower the risk of selecting this agency

It was discussed previously that as a result of their intangibility and high degree of experience and credence characteristics, professional business services are largely bought on faith. This research posits that the trustworthiness of an advertising agency increases the expected value of its future services. Support for the role of trust in the supplier as an antecedent to value is found in a number of previous studies. For example, Selnes (1998, p. 305) argued that "trust through safety, credibility, and security reduces the sacrifices for the buyer and is assumed to be of value by itself". Lapierre (2000) established empirically that trust is one of the value drivers, among users of Professional Business Services. In as far as trust and trustworthiness are directly and positively correlated, and constructs that are very close in meaning, the same nomological linkages that hold for trust can be expected to hold in relation to trustworthiness. In fact, Sirdeshmukh, Singh and Sabol (2002) provide empirical evidence for the positive association between trustworthiness, trust and value in two different consumer service markets.

Thus there appears to be good theoretical and empirical support in the services marketing literature that trustworthiness increases value. That is why the next hypothesis is proposed:

H17: Higher agency trustworthiness is positively associated with expected service value

4.3.7 Hypotheses about lower risk

It was established in Chapter Two that purchases of Professional Business Services are high involvement purchases, due to the importance of the services, its high cost and potential to

add, or respectively subtract, huge value from the client's business worth. That is why the risk of outsourcing Professional Business Services is quite high, and subsequently, risk reduction becomes a major consideration in outsourcing Professional Business Services (Hill et al., 2003). Reducing the adverse selection risk is a key consideration in the purchases of Professional Business Services. That is why this research argues that the advertising agency selection process is designed as it is to allow clients to gradually reduce the information asymmetry inherent in exchanges of credence goods. By screening the agency through background checks, interviews, visits, negotiations, through briefing and subsequent presentation of the pitch campaign, the client may become reassured that the agency is capable to handle the client account. As a result chances of the agency to be selected will be higher than before the screening and interpretation of agency signals. This will happen because value decreases with a greater risk, and increases with a lesser risk. If the agency background check indicates insufficient credentials, past work is mediocre, and the performance in the selection process is weak, then the client will experience higher levels of risk, which are likely to reduce the expectations of service value. Naturally, the client will steer away from such an agency.

Given the information economics and signalling theoretical background of this research, selection risk appears to be a key consideration in selecting a Professional Business Services (Mitchell et al., 2003), and more particularly an advertising agency (West, 1997; Hill et al., 2003). In view of this, the present study posits that agency selection risk is likely to have a negative impact on expected value of advertising agency (future) services. Thus, decreasing this risk during the selection process will, respectively, increase the expected value of the service. That is:

H18: The Lower selection risk increases the agency expected service value

To summarise, this section has formulated eighteen hypotheses about the relationships among the eight research constructs that were detailed in the first part of this chapter for inclusion in the conceptual model. The resulting model is shown in Figure 4.5 in the Appendix section. The next section develops the mediation hypotheses.

4.3.8 Mediation hypotheses

4.3.8.1 Trustworthiness as a mediator

"Mediation exists when a predictor affects a dependent variable indirectly through at least one intervening variable, or mediator" (Preacher & Hayes, 2008, p. 879). A mediator intervenes in the relationship between two variables by transmitting some or all of the effect of the predictor variable on the dependent variable (Hair et al., 2010).

Mediation occurs because the predictor variable exerts influence on both the dependent variable and the mediator variable. In such cases the mediator takes "some *inputs* from this influence and translates them into *outputs"* on to the dependent variable" (Hair et al., 2010, p. 767), hence, the dependent variable (DV) is the recipient of two effects: the direct influence from the predictor variable and some indirect influence from the predictor transmitted via the mediating variable. The sum of the direct and indirect (i.e., the mediating) effects on the DV represents the total effect of the Independent Variable (IV) on the DV. The benefit of being able to detect each of these effects derives from the additional information embedded in the mediation effects. That is, examination of the mediating effect allows the researcher to

understand the exact structure of the relationship between a predictor and a dependent variable, because it delivers more information on how the IV affects the mediator and how the mediator, in turn, translates this effect onto the DV. This creates a more detailed picture of the relationship between a cause and an effect.

The construct *trust* has a significant history of being modelled as a mediating variable. For example, Morgan et al. (1994) provided empirical evidence for the mediating role of trust in business relationships, and so did Moorman, Deshpande & Zaltman, (1993), Doney & Canon (1997), Ganesan (1994), Garbarino & Johnson (1999), Jarvenpaa, Tractinsky & Vitale (2000), Sirdeshmukh et al. (2002), Martin et al. (2005), Gounaris et al. (2002), Doney, Barry & Abratt (2007), Caceres et al. (2007), to mention just a few studies. On the basis of this empirical evidence for the mediating role of trust, the construct agency trustworthiness, treated here as a positive correlate of trust, is hypothesised to mediate the relationship between the predictors, agency reputation, agency rapport, service delivery and campaign quality and the DVs, lower risk and expected service value. That is, during the selection process signals such as agency reputation, increase the agency trustworthiness, and through it also increase the expected value of agency services indirectly. At the same time, agency reputation also lowers the selection risk indirectly by means of the effects of reputation on trustworthiness, transferred on to lower risk

Likewise, the information that the client acquires about the agency through screening during the selection process (i.e., by observing the quality of the service, and the agency rapport skills) also affect the agency trustworthiness, and through trustworthiness impact indirectly on LPR and expected service value. Thus, reputation, rapport, service delivery and campaign quality are posited to impact on the DVs in two ways – directly and indirectly. The mediation

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effect of trustworthiness proposed by this research is expected to be partial, that is, the mediator is likely to transfer only part of the effect of the predictor variables on the DV, not the full effect. It is expected that the direct relationships between each pair of variables is quite strong and won't be substantially reduced by the mediation. That is why only partial mediation is expected. Hence, the following mediation hypotheses are proposed:

H19: Agency trustworthiness will partially mediate the effect of agency reputation on LPR

H20: Trustworthiness will partially mediate the effect of agency rapport on LPR H21: Trustworthiness will partially mediate the relationship of service delivery on LPR

H22: Trustworthiness will partially mediate the relationship of campaign quality on LPR

H23: Trustworthiness will partially mediate the relationship of agency reputation on expected service value

H24: Trustworthiness will mediate the effect of agency rapport on expected service value

H25: Trustworthiness will partially mediate the relationship of service delivery on expected service value

H26: Trustworthiness will partially mediate the effect of campaign quality on expected service value

Compensation fairness is an exogenous variable in the research model, which has a direct effect on trustworthiness. Apart from this direct effect it is also anticipated that trustworthiness will transfer some of the effect of compensation fairness on expected service value, that is, some mediation effect is expected. Therefore the following hypothesis is proposed:

H27: Agency trustworthiness will partially mediate the effect of agency fair compensation on expected service value

A direct relationship between Fair Compensation and LPR is not hypothesised in this research, because even if the demanded agency remuneration is perceived as fair, it does not lower the risk of choosing the wrong agency (i.e., the adverse selection risk). Compensation that appears fair can still be quite high, if the agency underlying cost is high. The risk will decrease only if the amount of money at stake is low, that is, the agency remuneration is low. However, this may not always be the case, even assuming high compensation fairness.

4.3.8.2 Lower risk as a mediator

As has been discussed above, the selection process for a new agency is structured to create multiple opportunities for clients to screen the agency and evaluate agency signals, and thus lower the selection risk. By decreasing the selection risk, these screening and signalling variables are likely to also increase expected service value, not only directly as per hypotheses 3, 6, 7, 8 and 17) but also in an indirect way through the mediating effect of lower risk. The same applies to agency trustworthiness. Apart from the hypothesised direct effect on expected service value, this construct is likely to also increase expected service value indirectly by lowering the selection risk. On the grounds of these considerations the following mediation hypotheses are proposed:

H28: Lower risk will partially mediate the effect of reputation on expected value

H29: Lower risk will partially mediate the effect of rapport on expected service value

H30: Lower risk will partially mediate the effect of service delivery on expected service value

H31: Lower risk will partially mediate the effect of campaign quality on expected service value

H32: Lower risk will mediate the effect of trustworthiness on expected service value

4.3.8.3 Campaign quality as a mediator

Finally, campaign quality is also expected to mediate the effect of service delivery on trustworthiness, lower risk and ESV. The reason for this is that the quality of the creative campaign is affected of the service delivery quality, but it is the completed pitch campaign that exerts the most influence on agency trustworthiness, lower risk and expected value. Hence the following hypotheses are proposed:

H33: Campaign quality will partially mediate the effect of service delivery on lower risk

H34: Campaign quality will partially mediate the effect of service delivery on trustworthiness

H35: Campaign quality will partially mediate the effect of service delivery on expected service value

4.4 Summary

This chapter developed the conceptual framework for the thesis. The relationships among the research constructs were explicated using the findings of the literature review and the theories

guiding the research, as well as the results of the exploratory stage of this study. The respective research hypotheses were formulated and the research model was developed. The next step in the research was to decide on research design and to collect primary data to be used for testing the model. The next chapter will introduce the methodology chosen for this research.

CHAPTER 5: METHODOLOGY OF THE MAIN STUDY

5.1 Introduction

This chapter describes and justifies the use of the quantitative research methodology for the present study. It is structured in the following way. First, the research design is outlined and its two steps described. Second, the choice of explanatory research as the primary research methodology is justified. Third, the mail survey method of data collection is discussed. The steps followed to develop the questionnaire are presented next. A section of the chapter is dedicated to choosing appropriate measures for the research constructs. The sampling strategy is explained, and the data analysis procedure is briefly outlined. Finally, ethical considerations in relation to this research are discussed.

5.2 Research design

A research design has been called a framework, masterplan (Hair, Lukas, Miller, Bush & Ortinau, 2014, p.12) or blueprint (Burns & Bush, 2010, p.168) for performing research. There are three common types of research design: exploratory and descriptive and causal. Exploratory research designs are usually flexible and unstructured, or loosely structured research blueprints, utilising exploratory research methods. Exploratory research aims to expand the understanding of a topic (Cooper & Schindler, 2006, p.193), to clarify a research problem, or to identify possible decision alternatives and the relevant research variables that need to be considered (Aaker et al., 2011). Exploratory studies are typically, but not

exclusively, performed using qualitative research methods such as focus groups, interviews, case studies, secondary data analysis, or projective techniques (Aaker et al., 2011; Cooper et al., 2006). Exploratory research is conducted using relatively small samples and qualitative methods of investigation, its results are considered inconclusive (Malhotra, 2014), and usually only serve for orientation purposes. To be able to make generalisations about the research results, the researcher needs to conduct a further investigation that will produce conclusive results.

In contrast, descriptive research designs, which are based on quantitative methods of investigation, are typically applied when the research problem is clear and the initial hypotheses have been formulated (Churchill et al., 2010). Researchers using descriptive approaches seek to describe characteristics of the studied phenomena or the population of interest. Descriptive research can also be useful for testing hypotheses about relationships between variables (Churchill et al., 2010). However, it is less effective in providing explanations for cause-and-effect relationships (Aaker et al., 2011).

In turn, causal research aims to establish what causes drive certain effects, and is typically carried out using experiments (Malhotra, 2014). Experimentation is a scientific investigation in which a manipulation of one of more variables is undertaken in controlled conditions in order to determine the effect of this manipulation on other variables (Churchill et al., 2010; Cooper et al., 2006). Thus causal research is based on systematic observation and measurement, and is empirical in nature. Because causal investigation is able to explain relationships among variables (i.e., which variable affects which other variable and by how much), it is also referred to as explanatory research, and its results are considered conclusive and generalisable. Thus, empirical research conducted using a causal research design best fits

within the domain of what is known as scientific method (Razzaque, 1998).The scientific method of research requires the use of clearly defined variables and measurement procedures, as well as empirical testing of the hypotheses, and statistical justification of the conclusions (Cooper et al., 2006, p.53). In general, quantitative studies are more likely to be considered conclusive because they are based on larger samples, and they aim to detect (by means of descriptive research) and explain (by means of causal research) relationships and dependencies among test variables, and thus to deliver generalisable results (Malhotra, 2014).

Each of the three research designs described above can be used on its own, or in combination with the other types. The present research utilises a mixed method research design. Each of the three major research designs is utilised, as described below.

The exploratory qualitative research conducted in the beginning of the study confirmed that many of these factors are valid and applicable to the current Australian business environment, as explained in detail in Chapter Three. This made it possible to design a conceptual framework for the research and to construct the research model, as discussed in Chapter Four. The model is going to be tested using conclusive, quantitative research design (Malhotra, 2014). More specifically explanatory research will be applied. The present chapter describes in detail and justifies (Perry, 1998) the use of explanatory research, the primary methodology for this study. It also justifies the choice of quantitative survey as the data collection instrument. The next section discusses the reason why explanatory research is the best approach for this study.

5.3 Explanatory research approach

Explanatory (or causal) research can establish cause-and effect relationship between the research variables using primary quantitative data and statistical methods of data analysis. It is typically employed when the researcher aims to "understand which variables are the causes (independent variables) and which are the effects (dependent variables) of a phenomenon" (Malhotra, 2014, p. 95), as well as to estimate the strength of the association between them. Explanatory research can provide an explanation of how the variables impact on each other, indicating the direction and magnitude of the relationship, i.e., which variables affect which other ones, and by how much (Hair Jr., Lukas & Miller, 2012). The results provide opportunities for the researcher to determine how changes in the antecedent variables alter the values of the outcome variable/s. Being able to establish such dependencies is valuable for managers because it not only explains the causes of certain business phenomena, but also allows prediction and forecasting (Razzaque, 1998), and hence, better management and planning of organisational processes.

In technical terms, explanatory research involves the researcher formulating hypotheses about the variables of interest that are expected to cause changes in other variables, while controlling for the conditions of causality (Hair, Black, Babin & Anderson, 2010), which are: (a) the time order of events; (b) the absence of alternative causes for the effects, or evidence of a non-spurious relationship; (c) evidence of concomitant variation of the cause and the effect variables; and finally, (d) theoretical support for causality (Ghauri et al., 2005; Hair et al., 2010).

Once the researcher ensures that these conditions are satisfied, the next step in the explanatory research design is to test the hypotheses using experiments. This involves manipulation of the independent variables that are hypothesised to produce respective

changes in the values of the dependent variables (Zikmund, Ward, Lowe, Winzart & Babin, 2011). Quantitative data are typically collected from the test units in the sample and from a control group, using a range of experimental designs (Malhotra, 2014). The obtained data are used to estimate the resulting changes in the dependent variable. The aim is to discover a plausible explanation of how the hypothesised variables cause the observed changes in the values of the outcome variables (Cooper et al., 2006). It is considered that compared to all other research designs, causal research based on experiments provides "the greatest assurance that a causal inference is sound" (Aaker et al., 2011, p. 305).

However, it is not always possible to conduct experiments. For example, in B2B marketing research true experimental designs are difficult or impossible to implement (Ghauri et al., 2005). This is especially true when the research includes latent (or unobservable) variables, and is associated with organisational phenomena of long duration that can be neither manipulated, nor observed and measured directly (Ghauri et al., 2005). One example of such a situation is the process of advertising agency selection, which could last for many months (Beard, 2002; West & Paliwoda, 1996). In such conditions, the research does not involve true experimental designs. Instead, with a strong theoretical underpinning the researcher can apply the ideas underlying an experiment to create a hypothetical model, depicting the hypothesised effect of the independent variables on the dependent ones (Ghauri et al., 2005).

True experiments are typically based on longitudinal research designs, which provide evidence of the time order of effects (Malhotra, 2014; Aaker et al., 2011). However, these research designs may be difficult or impossible to implement in research fields such as policy and strategy research (Anderson & Vastag, 2004) and in B2B studies, for the reasons mentioned above. Hence, causal modelling based on non-experimental data is used instead

(Anderson et al., 2004), This simply means that researchers ground their models on strong theory, that indicates the time order of events and/or effects (Hair et al., 2010), thus making it possible to arrange the variables in the model in a theoretically supported sequence. This in turn provides the opportunity to use cross-sectional, or correlational research designs as the basis of the causal investigation (Ghauri et al., 2005). Appropriate quantitative data are collected from a sample of test units, representing the population of interest. These data are modelled using causal modelling techniques, such as Structural Equation Modelling or Bayesian networks (Anderson et al., 2004; Ghauri et al., 2005). Although this cross-sectional research does not establish cause-and-effect relationships per se, it allows the researcher to establish a statistically significant association between the hypothesised independent and dependent variables, based on prior theory, and thus to suggest that the hypothesised relationship is likely to exist. The idea is to prove that "a postulated theoretical network is a reasonable approximation of the process that generated the study data" (Anderson et al., 2004, p.106).

This study applies causal modelling to implement the explanatory investigation. In the present study the variables are not manipulated, because it is impossible to conduct an experiment on advertising agency selection, as already discussed. Although true experimental designs are not applicable to this study, drawing on relevant theories (Chapter 2), and combining the findings of prior research in the field of the study (Chapter 2), with the results of the exploratory qualitative enquiry (Chapter 3) will allow the construction of the research model (to be developed in Chapter 4). Cross-sectional data will be collected to estimate the hypothesised relationships among the variables in the model. This will enable the testing of the model using structural equation modelling (SEM). As explained above, the results of such

test can provide a strong basis for inferring a causal relationship between the predictor and the effect variables.

Given the topic of the thesis, explanatory research based on causal modelling seems the most appropriate research design for this study. Hence the chosen cross-sectional, causal research design is reasonable.

5.4 Method of data collection

This section elaborates on the choice of the survey method for the data collection.

To achieve the research goal of this study, it is necessary to test the research model that measures the impact of the predictor variables (signalling and screening factors, as well as purchase-related variables) on the dependent variables, expected service value and lower perceived risk). In order to estimate the relationships among the variables in the model, quantitative data is needed on each of the constructs and the researcher has to obtain these data from a sample of informants who have experience with the studied phenomenon. Therefore, an appropriate data collection instrument must be used to collect these data. In particular, the research design must provide the researcher with the opportunity to ask the informants questions about their perceptions of the factors hypothesised to predict an advertising agency selection, i.e., the constructs of the model. It also must ensure that the responses are measurable (Malhotra, 2014). This means that the responses should be recorded using appropriate scales that allow quantification, which in turn will enable model estimation. Apart from collecting data to measure the latent variables, the research design has to ensure

also the collection of descriptive data (e.g. respondent's demographics, company demographics, etc.).

The survey is one of the most popular methods and very well established methods of data collection used across multiple disciplines. It appears to be quite popular also in marketing in general, and organisational buyer behaviour in particular. Numerous articles in prestigious marketing journals, such as *Journal of Marketing*, *Industrial Marketing Management*, *Journal of Business Research*, and *Journal of Marketing Research* and many other appear to have used surveys as a data collection instrument. For example, survey-based quantitative investigation of the effects of various factors on the construct *perceived value* in professional services is reported by Desarbo, Jedid & Sinha (2001); Kumar & Grisaffe (2004); Lapierre, Filiatrault & Chebat (1999); Molinari, Abratt & Dion (2008); Patterson et al. (1997) and Whittaker, Ledden & Kalafatis (2007), to mention just a few. Similarly, this research will employ a survey as a data collection instrument or the main, quantitative study.

From the different types of surveys (e.g., mail, online, telephone, and personal interviews (Cooper et al., 2006), the self-administered mail survey has been chosen as the most appropriate for the present research setting. Its advantages include, first of all, moderate cost, as it is cheaper than telephone surveys or personal interviews (Malhotra, 2014). Besides, mail surveys are convenient when data need to be collected from informants spread over a vast territory (such as this research, which collects data from companies Australia-wide). Mail surveys make it convenient for informants (in this case, busy executives) to answer the questions as they can choose suitable for them time to fill in the questionnaires.

The use of an online survey as an alternative to a mail survey has been considered, but has been rejected because very low response rates in B2B online surveys are often reported (e.g. Abhijit, 2005; Liyin, 2011)

Thus, suitability for the purposes of the research, moderate cost, convenience for the informants and advantages over alternative methods of data collection were the main reasons for choosing the self-administered mail survey as the data collection method for this study.

5.5 Questionnaire design and measures development

This section details the process of questionnaire development as a main data collection instrument for this research. Based on the literature (in particular, Aaker et al., 2011; Churchill et al., 2010; Hair Jr. et al., 2012; Malhotra, 2014) a six-step questionnaire design procedure was developed for use for this study, as follows:

Step 1: Determine what information is required and from whom it should be collected;

Step 2: Determine how the constructs will be operationalised;

Step 3: Decide the format of the questions;

Step 4: Prepare a draft questionnaire;

Step 5: Questionnaire pre-testing and adjustment;

Step 6: Questionnaire administration

This sequence was followed in developing the questionnaire, and the separate steps are discussed below. The information objective will be to to collect the necessary data that will

enable the measurement of the latent constructs in the model. In addition to this, demographic data on the respondents and their companies are also needed for sample profile identification and for the purposes of classifying respondents (Malhotra, 2014).

Step 1: Information required and sources of information

In order to be able to test the hypotheses of this study it is necessary first of all to measure each of the constructs in the model. Thus, measurement scales are needed for each construct. The conceptual definitions of each latent construct guide the search and selection of appropriate multi-item scales from the existing scholarly marketing and management literature (Hair et al., 2010). These multi-item measures are sets of statements, associated with each construct. The respondent will be asked to express his/her degree of agreement with each of these statements on a measurement scale, such as a Likert scale. Since a mail questionnaire is used in this case, the informants will need to provide their answers by checking the appropriate response categories on the measurement scales in the questionnaire. Thus, the first task at this stage of the research is to indicate how the constructs in the model will be operationalised and what type of scales and response formats will be used in the questionnaire. More specifically the following steps need to be taken to ensure the constructs are measured and the needed data are collected:

- Find appropriate and reliable multi-item measures for these constructs to enable their operationalisation

- Develop a measurement scale to measure the responses of the informants on each item of the measures.

- Apply the measures to a sample of the target population for this research and calculate scores for all of the mentioned constructs.

- Process the model and interpret the results.

Apart from measurement of the latent constructs, some demographic and behavioural information on the respondents will be needed for classification purposes and to aid the interpretation of the data analysis results. Hence, measures to gauge respondents' research-related demographic characteristics, such as title of the respondent, industry in which the company operates, type of business, geographic location of the company, as well as s few measures related to the respondent' company use of advertising agencies will be needed. Simple questions will be able to obtain the needed information in this part of the questionnaire.

There are three types of variables included in the proposed model (see Fig. 4.5): exogenous (i.e., independent), endogenous (i.e., dependent) and intervening (i.e., mediating) constructs.

a) Independent variables (predictors, antecedents)

All the factors that are posited as predicting the ultimate DV, expected service value and that do not have any arrows pointing at them in the model, fall in this category. These are: perceived agency reputation, perceived service delivery, perceived rapport, and perceived compensation fairness. This study aims to show that collectively these variables make a major contribution to the final selection of an advertising agency in two ways: by means of their direct, and indirect (mediated) effects.

b) Dependent Variables

There are two dependent variables in this research: lower perceived risk and expected advertising service value, or expected service value, abbreviated respectively to LPR to ESV. The latter is the ultimate dependent variable and a proxy for advertising agency choice.

Choice (of an advertising agency) per se is not modelled, because it is a binary variable, representing the dependent variable. If a binary variable is included in the model as an endogenous latent construct representing choice, the PLS algorithm regresses it on the predictor variables and "... as the construct becomes its measure ... and thus has only two values (choice, or no choice), a basic premise of the ordinary least squares regression is violated" (Hair, Sarstedt, Pieper & Ringle, 2012, p.326). Hence, it is incorrect to include categorical variables as endogenous constructs in PLS.

ESV is predicted by all the other variables in the model. Lower perceived risk is also a dependent variable. Given the type of relationships involved in selecting and using an advertising agency on one hand, and the importance of hiring a good agency on the other, it is no surprise that clients perceive a high degree of risk in agency selection, as discussed previously. Reducing this risk is a major goal during the agency selection process. The screening variables, perceived reputation, perceived rapport, perceived service delivery, perceived campaign quality, and perceived trustworthiness of the agency affect the perceived selection risk. The higher the perceived agency's performance on each of these four attributes, the lower the perceived risk. In turn, the lower the risk, the higher the expected service value, and hence, the greater the chance of the agency being hired.

c) Mediating variables

Finally, based on the literature review and the predictions of the relevant theories (Chapter 2), as well as on the findings of the exploratory research (Chapter 3), a mediating relationship among the variables is included in the model (Barron and Kenny, 1986). The intervening variable in the model is perceived trustworthiness, which is hypothesised to mediate the effect of the four exogenous variables - perceived reputation, perceived rapport, perceived service delivery, and perceived compensation fairness — on the dependent variables, lower perceived risk and ESV. These hypothesised mediation relationships are explicated in Chapter Four.

Overall, the proposed model links all the research variables in the following way. Grounded in the literature review and the findings of the exploratory research, and underpinned by the predictions of the theories of Information Economics, Signalling, Screening and Agency theory (as discussed in Chapter 2), the model posits that signals, such as agency's corporate reputation, affect the pre-purchase expected service value of advertising agencies directly and indirectly. The indirect effects on the dependent variable arise because of the mediating role of perceived agency's trustworthiness, as explained in Chapter Three. At the same time, screening variables, such as agency's perceived service quality (which is represented in the model by its two dimensions, perceived service delivery and perceived campaign quality) and agency's perceived rapport, also impact on the dependent variables, through their direct effect on the dependent variable, expected service value, and indirectly, through their effect on agency's perceived trustworthiness and on lower perceived risk. Perceived compensation fairness enters the model as a purchase (or situation-related) variable, affecting ESV directly and indirectly, through its effect on perceived trustworthiness.

Thus, the information objective of the research is to find appropriate multi-item measures for endogenous, exogenous and mediating variables in the model. The selection of measures is part of the next discussion.

Step 2: Determine how the constructs will be operationalised

The test model was presented in Fig. 4.5. It is comprised of latent constructs, identified through a review of the literature, exploratory research and the respective theories underpinnings the conceptual framework construction. The conventions of structural equation modelling have been used in drawing the model. That is, the latent (unobserved) variables are represented as oval shapes and all the constructs are linked to other constructs by single-headed arrows (Diamantopoulos, 1994; Hair et al., 2010). The latter represent the direction of causality of the hypothesised relationships among the constructs, so that the exogenous variables have only arrows emanating from them and pointing to the mediating and endogenous variables. All arrows are single-headed, because the model is recursive (Hair et al., 2010; Tabachnik & Fidell, 2007). Further, all the hypotheses in this research are positively framed, and this is visually communicated by the "plus" signs next to the arrow in the diagram (see Fig. 4.5).

All the variables are latent variables, and are operationalised by multi-item measures (Hair et al., 2010). In general, indicators can be linked to their respective constructs in either a reflective or a formative mode, or both (Jarvis et al., 2003; Henseler et al., 2009), depending on whether the direction of causality runs from the construct to the indicators (i.e., reflective measures), or from the indicators to the construct (i.e., formative measures) (Jarvis et al.,

2003; Chin, 2010). In this research model all constructs are reflective; hence, the model is reflective. This is represented graphically by linking the underlying latent variable to its indicators by means of single-headed arrows, emanating from the construct and pointing to the indicators. The latter are represented as square boxes, symbolising the fact that they are directly measurable.

Latent constructs can be unidimensional (one underlying dimension of the construct) (Hair et al., 2010), or multidimensional (a few underlying dimensions). In the present model, all of the variables are treated as unidimensional and are therefore modelled as first-order constructs. service quality, treated as a two-dimensional variable, is represented in the model by its two dimensions, perceived service delivery and perceived campaign quality, each of which is unidimensional.

Appropriate measures for all constructs were identified from the marketing literature in the fields of supplier selection and agency-client relationships, the reputation literature, and the professional business services marketing literature. These measures are discussed next.

In general, to operationalise the constructs the researcher first needs to provide suitable conceptual definitions for each of them. Appropriate conceptual definitions for all latent constructs were developed in Chapter 4, where the hypotheses about the relationships among the research variables were explicated.

Eight latent variables are included in the research model. A search for multi-item scales from the established literature on advertising agency selection, agency-client relations, professional business services, service quality and other related bodies of knowledge was performed in

order to find appropriate scales. Appendix 1 provides detailed information on the conceptual definition of each construct as formulated in Chapter 4, the sources of each measure, the original wording of the items, their reliability scores, as well as the adapted wording of the items for this research.

All indicators in the resent study were positively stated as recommended by Herche & Engelland (1996). All of them are reflective (Diamantopoulos, Riefer & Roth, 2008; Jarvis, MacKenzie & Podaskoff, 2003). The decision rules for modelling reflective constructs proposed by Jarvis et al. (2003) have been applied in developing the measures. Briefly these criteria refer to the direction of causality between the constructs and their indicators, interchangeability and covariation of the indicators, as well as the nomological nets of the construct indictors (Jarvis et al., 2003).

Step 3: Deciding the format of the questions

The present research utilises 7-point Likert scales with anchors: 7 = "Strongly agree," 1 ="Strongly disagree," and all other points in-between also worded on the scale in the survey (see the Questionnaire). The selection of a 7-point scale is justified on the basis of a consensus among researchers that 5- and 7-point Likert scales yield better reliability and validity results than scales with fewer points (Dawes, 2008). A decision to label all seven points on the scale was also made, because this reduces the scale ambiguity (Aaker at al., 2011).

The additional classification and behavioural questions in the survey (in sections 1 & 3) dealing with such issues as the respondents' personal experience with a few aspects of agency

selection/management and their organisation's demographic characteristics will be measured using nominal, ordinal, interval and ratio scales (see the questionnaire).

The questionnaire employs a range of different response structures. For example, the Likert scale-based questions use a closed question structure, with seven answers to choose from, as explained above; questions about the respondent's demographics have a multiple-choice structure or are dichotomous. Checklist-style responses are provided for questions regarding type(s) of industry in which the company operates, state in which it is headquartered, etc. This range of structures is not only functional in terms of providing flexibility in collecting diverse types of information, but the variety of response structures may also make the questionnaire somewhat more interesting for the respondents, and hopefully increases the motivation to complete. As Aaker et al., (2011) note, excessive use of the same question format can reduce the amount of attention paid to the questions.

Question 17 asked respondents to indicate the size of their company as measured by the number of employees, by marking one of five non-overlapping ranges. It was decided to use these categories in order to obtain a better picture of the distribution of companies of different sizes in the sample. The taxonomy of company sizes used by the Australian Bureau of Statistics was considered less suitable, as it categorises any company with over 200 employees as large (www.abs.gov.au). However, as the focus of this research is on larger companies, it was of interest to learn more about the different sizes of large companies. Thus, respective size ranges needed to be available in the questionnaire in order to identify different groups of large companies. This distribution of companies by size makes it possible to identify very large companies, including multinationals, as well as medium-to-large companies that also employ advertising agencies. Hence it was decided to include the

following size ranges in the questionnaire: (a) less than 50 employees; (b) 51-500 employees; (c) 501-1000 employees; (d) 1001-4000 employees; (e) more than 4000 employees.

Step 4: Preparing a draft questionnaire

The actual questionnaire is composed of three sections. The first is an introductory section, intended to warm up the respondents and prepare them for the survey. It contains classification questions, aiming to elicit information of a demographic and behavioural nature that is useful in identifying the sample profile. Thus, these questions (five in total) aim to collect information about:

a) the informant and his/her position/title in the organisation;

b) the length of experience of the respondent in the role of organisational buyer for advertising services; this is also used as a screening question;

c) their company's use of adverting agencies;

d) the average tenure of their advertising agencies;

e) whether the company uses one or more agencies simultaneously.

The most important survey questions are located in section two. This part of the questionnaire asks questions that relate to the latent variables; that is, the building blocks of the test model. As mentioned, the questionnaire presents the respondents with a series of statements related to each of the eight constructs in the model, and asks them to express their level of agreement with these statements, using the Likert scale response format discussed above.

Finally, the third section collects demographic information on the respondent's company by means of five multiple choice questions. They ask about the type and location of the

respondent's company, the industry/ies in which the business operates the company's size as measured by the number of employees, and the approximate annual advertising expenditures. The questionnaire concludes with a brief "thank you" statement.

In preparing the second, most important, section of the questionnaire, a lot of attention was paid to the wording of the questions, in order to make them concise, understandable, and easy to answer. The questions measuring the latent constructs were organised as blocks of statements associated with each variable, with Likert scale answer codes provided next to each statement (see Questionnaire). This makes the questions very easy to answer, because once the respondent has read the question and the respective statement, all s/he needs to do is check a box, corresponding to a number from 1 to 7, associated with his preferred response. Similarly, it is very easy to answer the questions in sections 1 and 3 of the questionnaire, where typically only one of the provided response categories needs to be marked. A few questions offer the respondent the opportunity to specify an answer not included in the pre-arranged options—that is, "other" category—in case there is a need for such responses.

The questions in each section follow a logical order. There are no sensitive questions, except maybe one that is slightly sensitive, asking the respondent to identify his/her company's annual advertising expenditure by choosing from a few categories representing broad ranges of expenditures in dollars. Because some respondents might not wish to share this information, in order not to intimidate them before they have provided the answers to the more important survey questions, this particular question is placed last in the third (last) section of the questionnaire.

The wording of the questions is considered important in terms of achieving clarity and facilitating more accurate responses. The questions were edited a few times in order to

improve their readability and clarity. The principles of good survey development were followed, in that the vocabulary used was simple, direct, and familiar to the respondents (Aaker et al., 2011). This is because research indicates that "shorter, simple items are generally clearer and easier to respond to reliably" (Churchill & Peter, 1984, p. 360). Hence, words with vague and ambiguous meanings were avoided, as were questions that were double-barrelled, leading or loaded, or too long (Malhotra, 2014; Ghauri et al., 2005; Cooper et al., 2006; Aaker et al., 2011) and that could, therefore, be confusing to respondents. An effort was also made to word the instructions on how to fill in the questionnaire in a simple, clear manner.

Finally, as recommended in the survey design literature (e.g., Hair Jr. et al., 2012), the flow of information in the questionnaire was checked to ensure that it moves from the general to the specific. Once these steps were completed, the questionnaire was ready for pretesting, which is discussed next.

Step 5: Questionnaire pretesting and adjustment

Questionnaire pretesting is the next step in the development of the survey instrument and it is undertaken to ensure that any problems with meaning, wording ambiguity, or questionnaire flow are identified and sorted out (Zikmund et al., 2011).

Pretesting is instrumental in increasing the questionnaire's appropriateness and answerability (Lapierre et al., 1999), readability, and relevance (Dowling 1994). Among other things, pretesting allows for estimation of the time it takes on average to complete the questionnaire.

The debriefing protocol approach to pretesting (Aaker et al., 2011) was utilised for the purposes of this study. This means that the respondent is first asked to fill in the questionnaire on his own, very much like it is supposed to be filled in reality (Aaker et al., 2011). Once this is done, the researcher discusses with the respondent the clarity of the questions, their order, the response format, the flow of the questionnaire, the respondent's difficulties in answering questions, etc. Detailed notes are taken of any feedback the respondent supplies, to be used to correct or adjust the questionnaire. The questionnaire is subsequently altered according to the feedback obtained this way.

The questionnaire was pretested with three marketing academics, a very prominent advertising agency selection consultant, and three company executives with hands-on experience in selecting advertising agencies (Zikmund et al., 2011). In general, all of these individuals indicated that they understood the questions, and interpreted their meaning in the way they were meant to be interpreted. They found the questions to be clear and unambiguous and answered them properly. This confirmed the face validity of the measures (Churchill et al., 2010). The experts were able to find an answer to all closed-ended questions, and thought that the flow of questions was logical. On average it took about ten minutes for them to answer the survey. They had very few suggestions, involving minor rearrangements of the words in a few statements. These suggestions were taken into account and respective adjustments made; however, overall, the questionnaire remained the same. The final Questionnaire can be found in the Appendix
to this thesis.

Step 6: Questionnaire administration

The questionnaire was printed one-sided on A4 (8.5 x 11 inch) white paper, as research indicates that this size contributes to a higher response rate compared to the legal letter format (8.5 x 14 inch) (Childers & Ferrell, 1979).

Along with the actual questionnaire, the survey envelope contained also a cover letter to the respondents, introducing the researcher, explaining the purpose of the research, the importance of responding to the survey, and the confidential and voluntary nature of the respondent's participation. Instructions on who is to answer the survey and how to answer the questions were included on a separate piece of paper. A self-addressed, stamped envelope was provided along with the questionnaire and the accompanying letter, to facilitate the return of the completed survey.

To summarise, this section identified the stages in developing the questionnaire as well as the information needed to achieve the research objectives, and discussed the approach to data collection, that is, the use of a mail survey. A large portion of the section elaborated the stages of questionnaire development, and the measurement and scaling procedure, as well as questionnaire pretesting and administration. There is one more step that needs to be completed before embarking on data collection: outlining an appropriate sampling strategy. This is the subject of the following section of this chapter.

5.6 Sampling strategy

Sampling was dealt with in line with the recommendations in the literature (Churchill et al., 2010; Ghauri et al., 2005). Accordingly, the following sequence of actions was implemented:

a) define the target population

b) determine the sampling frame

c) select the sampling method

d) determine the sample size

5.6.1 Defining the target population

The target population is the total collection of elements or objects that possess the information sought by the researcher and about which inferences are to be made (Malhotra, 2014, p. 261).

In this study, the focus is on measuring the important factors that predict the agency choices of Australian companies. Thus, the target population consists of Australian organisations that engage in the selection, retention, and regular use of one or more advertising agencies. Targeted were private and public organizations that retained one or more advertising agencies. They were located in all states of the country, i.e. a national sample was used. Informants for this study were recruited from among personnel who deal with agency selection and management.

Although any company, no matter how big or small, might eventually need to employ an advertising agency, most of the smaller companies (less than 50 employees), and many small-

to medium companies (50-500 employees) do not retain an agency, due to their limited financial resources, or the use of in-house advertising agency. They are thus not part of the target population. Typical users of continuous, contracted advertising services are predominantly very large, large and medium organisations. These are companies that conduct "account reviews," and stage a structured agency selection process, typically involving a pitch, as described in this thesis.

These types of companies possess the information sought in this thesis, and therefore can be useful to survey for the purposes of this research. These companies are also known as advertisers. Thus, the target population of interest for the purposes of this research project is defined as: *All Australian companies that select, contract with, and use on a continuous basis one or more advertising agencies.*

The sampling units (Malhotra, 2014; Aaker et al., 2011) of the population are all large or medium-sized Australian organisations that select and retain advertising agencies. The sampling elements, on the other hand, are senior marketing executives with direct responsibility for selecting, managing, and changing advertising agencies. They usually have titles such as Marketing Director, General Manager, Marketing Manager, or Marketing Communications Manager. They are the specific respondents within the sampling unit (Aaker et al., 2011) who possess the information required by this research.

5.6.2 Determine the sampling frame

The next step in the sampling process is to assemble a sampling frame; that is, a list of all eligible sampling units (Hair Jr. et al., 2012), with their contact details, from which the sample will be drawn. Sources of sampling frames of organisations are listings such as the Yellow Pages, associations' directory listings, and mailing lists sourced from specialist mailing list companies (Ghauri et al., 2005; Hair Jr. et al., 2012a; Malhotra, 2014; Zikmund et al., 2011).

For the purposes of this study the sampling frame was compiled from the latest at the time, 2009 edition of the B & T Advertising, Marketing and Media Yearbook, a biennial publication that lists major Australian advertisers, advertising agencies, and marketing and media consultants. The term "major advertisers" (Hill, 2006, p. 1255; www.bandt.com.au) is often used in publications discussing advertising, advertising agencies, advertisers, advertising spend and related topics, however, an explicit definition could not be found in the literature. The implied meaning of the term, as discerned by the author of this thesis, is relatively large and very large companies that engage in continuous advertising throughout the year, and typically select and retain one or more advertising agencies to design, produce and implement their advertising campaigns. This study is interested in researching exactly this type of companies. Hence, the Yearbook's listing was used as a sample frame.

5.6.3 Select a sampling method and sampling size

The B & T Yearbook provides comprehensive lists of major Australian advertisers, agencies, marketing and media consultants, etc. The database of "major Australian advertisers" in this publication is an exhaustive list of large advertisers, who, of course, are the target population for this research. None of the lists offered by the mailing list companies is as well-tailored to

the needs of this study as this database. In general, the lists from mailing list companies include a comprehensive database of all types of companies, from the very small to the very large, from B2B to B2C companies, because the lists have been constructed to serve a very broad cross-section of research needs. For this reason, a lot of the paid-for data from these lists is unusable for this study. Besides, the commercial databases are extremely expensive (costing in the thousands of dollars), whereas the sampling frame developed by the researcher is quite affordable, as it only includes the price of the directory (i.e., a few hundred dollars). Using this sampling frame is thus appropriate for the research, and contributes to minimising the sampling frame error (Malhotra, 2014).

The publication provides the name and address of each listed company and the name of its Marketing Director/Manager. In the rare instances where some of this information was missing for a particular company, the contact details were obtained either through a dedicated search of the company's web-site, or by making a telephone call to the company's headquarters.

This sampling method produced a list of 423 major advertisers. This number is comparable to other studies in the field of agency-client relations, which also mailed surveys to clients of advertising agencies in Australia (e.g. Dowling, 1994; Hill, 2006). Based on the information provided in other similar studies conducted in Australia, like the once just mentioned, it appears that the number of major Australian advertisers identified by this study, using the above – described process is very close to the actual population size, which ensures high representativeness of the sample.

This approach produced a list of 423 companies that were targeted with the mail survey. Given the size of the Australian economy, and the fact that small and very small companies, which account for the bulk of all businesses in Australia (Connolly, Norman & West, n.d.) are not of interest to this study, as they do not select agencies, this number is considered highly representative of all companies that engage in agency selection in the sense of this research. A very small number of companies that may be part of the target population have not been included in the sample, but most of the major advertisers have been included; hence the sample is considered highly representative of the population of interest. By comparison, other three studies—Hill & Johnson (2003), Hill & Johnson (2004), and Hill (2006)—investigating advertisers' perceptions of creative services, expectations of and satisfaction with agency creative product, conducted a survey of 510 top Australian ad spending companies. All of these four studies make a point about the sample selection and describe the difficulties associated with sourcing the names and contact details of an exhaustive list of advertisers that retain an agency. The above-mentioned studies have targeted a similar number of national advertisers that spend relatively large amounts of money on advertising and retain one or more agencies. On this basis, it can be concluded that the present study's survey sample is in line with previous, similar studies of the same research population in Australia, and appears to target a highly representative sample of this population, which is very close in size to the actual target population. This ensures the representativeness of the sample.

5.7 Unit of analysis: key informant approach

The objective of this study is to identify the factors that predict the choice of an advertising agency by Australian advertisers. Hence the unit of analysis for this study will be a large

Australian company engaging in continuous advertising, which retains one or more advertising agencies and therefore needs to select, from time to time, a new agency.

The information required for this study will be obtained from people in such organisations who have actual, first-hand experience with the phenomenon of interest to the researcher and can provide correct and relevant information. Respondents who fit the above definition are known as *key informants* (Patterson & Spreng, 1997). For the purposes of this study the key informant is a senior executive, such as general manager, marketing manager, marketing and advertising manager, product manager, communications manager. Key informants from large and very large Australian companies will be sought for the purposes of answering the survey questions for this research.

To ensure that a key informant fills in the questionnaire a screening question is used at the beginning of the first section of the questionnaire, asking how many years of experience the respondent has selecting agencies. Also, the first page of the questionnaire instructs the respondents that they need to have a minimum of two years' experience in agency selection to qualify to answer the questionnaire.

5.8 Data analysis

Data analysis using SEM consists of a number of steps required to test the measurement and structural models (Hair et al., 2010). A short overview of the data analysis procedure follows. Detailed discussion of each step in the analysis is provided in Chapter 6.

5.8.1 Data preparation

After the survey is administered and the data collected, data preparation is next undertaken in order to convert the data into a form suitable for analysis (Malhotra, 2014). This process starts with questionnaire editing. The data needs to be examined for invalid responses, omissions, ambiguities and questionnaires filled in by respondents who do not qualify to answer the questions (Aaker et al., 2011) are set aside. Incomplete questionnaires are examined and those that are unusable (wrongly filled in, or that have a lot of missing data) are discarded from the lot (Hair at al., 2010). The data are then coded, with numerical values assigned to each response to each question (Burns & Bush, 2014) when the data is transcribed into an SPSS spreadsheet.

Descriptive statistics, calculated using an SPSS program, provide information on means, medians, percentages, standard deviations, frequency distributions, and distribution shape (Aaker et al., 2011), which allows the researcher to obtain an initial, basic understanding of the data. These statistics also support the data cleaning process (by identifying out-of-range values) and the treatment of missing responses (Malhotra, 2014). A check of the individual variables in the data set needs to be performed in order to ascertain whether the data are normally distributed (Bollen, 1998). Normal probability plots, skewness, and kurtosis are examined to see if they fall within the statistical theory limits (Hair et al., 2010). Data needs to be normally distributed if SEM with Maximum Likelihood Estimation is to be used to process the model (Henseler et al., 2009).

5.8.2 Model estimation and hypotheses testing

In order to be useful a research study needs to be accurate (Ghauri et al., 2005) and reliable (Burns et al., 2014). To achieve accuracy, research needs to be based on a valid measurement (Hair Jr. et al., 2012a). In turn, a measurement instrument is valid if it accurately measures what it is supposed to measure (Aaker et al., 2011). Thus the first priority in estimating the model is to ensure that the measurement (outer) model exhibits satisfactory reliability (convergent validity) and discriminant validity (Fornell & Larcker, 1981). Once the measurement model is validated, then attention turns to the structural model and hypotheses testing. The results of the structural model test are interpreted and respective conclusions are made regarding the hypothesised relationships among the research variables. This enables the next step of the research assignment: drawing of conclusions and highlighting the research implications for knowledge and for management practice. These procedures will be discussed in detail in the next chapters.

5.9 Ethical considerations

The data collection procedure should conform to the principles of ethical research. In compliance with this, an approval to conduct the research was obtained from the university's Ethics in Research Committee. The primary data were collected, observing the detailed requirements for ethical research, as laid out by National Statement on Ethical Conduct in Human Research (2007) (www.nhmrc.gov.au/guidelines). This includes informing the respondents about the purposes of collecting the data, soliciting their consent to participate in the research, ensuring the confidentiality of disclosed information, ensuring the anonymity of respondents by not collecting factual data on their names and addresses, and making

provisions for storing the surveys and other materials containing respondent-provided information in locked drawers and offices (www.nhmrc.gov.au/guidelines).

5.10 Summary

This chapter provided an account of the main methodology used in the present research, i.e., the quantitative research implemented via a mail survey. It covered a range of issues related to describing, justifying, and implementing the particular research design chosen for this project. A step-by-step approach to questionnaire development was presented and the sampling strategy outlined. A brief overview of data analysis was also presented. Finally, ethical issues related to the data collection were discussed. The next chapter elaborates on the analysis of the data. The next chapter discusses the data analysis.

CHAPTER 6: DATA ANALYSIS

6.1 Introduction

This chapter discusses the consecutive steps undertaken in the data analysis. It consists of several sections. The first section presents an overview of the collected data. The preparation of the raw data for testing is presented next, followed by an evaluation of the data characteristics, in view of deciding which modelling approach will be better suited to this study. Partial Least Squares Path Modelling (PLS PM) is identified as more appropriate, compared to Covariance-Based Structural Equation Modelling. In the next section, the two steps of the model testing process, measurement model validation and structural model testing, are presented and the results from testing the research hypotheses are reported.

6.2 Overview of the collected data

6.2.1 Response rate

The previous chapter presented the sampling procedure and sampling frame for this study; it also justified a mail survey as a data collection instrument. The survey was mailed in two waves occurring three weeks apart, to a database of 423 senior marketing directors of large and medium-large organisations in all the Australian states. As a result, 119 completed questionnaires were collected from the two mailings. In addition, 21 unopened envelopes

were returned by Australia Post marked 'return to sender' or 'not at this address'. Of the 119 completed questionnaires, 4 (3.36%) left more than 50% of the questions unanswered; those questions were predominantly in the second section of the questionnaire covering latent variables, which was considered essential for the research. Due to the extent of unanswered questions, which could potentially bias the results, as well as the very small number of these cases, these questionnaires were dealt with using list-wise deletion in line with Hair et al. (2010). One questionnaire was completed by a respondent who did not satisfy the screening criteria for participation. The condition for participation in the survey was at least two years of work experience in agency selection. The above-mentioned respondent had less than two years of experience and was deemed ineligible to participate (Aaker et al., 2011). Hence, the respective questionnaire was removed from the set of responses.

Although the deletion reduced slightly the number of questionnaires, the sample remained large enough to support the testing of the model. The minimum sample size needed to enable estimation of the hypothesised relationships in the model is 70, i.e. 10 times the number of predictors to the variable with the most predictors (Chin & Newsted, 1999). In this study this variable is expected service value, which has 7 antecedents.

After excluding these five questionnaires, a sample of 114 responses was retained for analysis. This accounted for a total response rate of 28.0% and a net response rate of 26.9%. This result is in line with the response rate of many other studies in business marketing using self-administered mail surveys (e.g. Doney & Cannon, 1997; Heide & John, 1990; Lapierre, Filiatrault & Chebat, 1999; Lian et al., 2007; Wathne, Biong & Heide, 2001) and in the field of advertising services (e.g. Beard, 2002; Caceres et al., 2007; LaBahn, 1996).

6.3 Data preparation

6.3.1 Data editing

The first step in data preparation is data editing. This involves identifying 'omissions, ambiguities and errors in the responses' (Aaker et al., 2011, p.380). The 114 questionnaires were checked for omissions, i.e. single responses missing or incomplete responses; ambiguity (e.g. questions answered in an illegible or unclear way); inconsistencies in the answers within each questionnaire; and lack of cooperation, i.e. providing the same answer for too many questions, which may happen due to fatigue when completing a very long questionnaire (Aaker et al., 2011).

A few questionnaires had single missing values; however, instances of such missing data were rare. Therefore, these surveys were retained at this stage for further examination. These will be discussed in more detail shortly.

Upon examination of the surveys, it appeared that a lack of cooperation was not an issue in this research (Aaker et al., 2011, p.381). This may be attributed to the relatively short questionnaire, which did not represent an excessive time requirement for busy executives. To answer most of the questions, they simply needed to mark the box representing the preferred answer. Furthermore, the instructions for how to answer the questions in the different sections were clear, relatively short and uncomplicated. That is, the measuring device was easy to use and satisfied the requirement for measurement process convenience (Cooper et al., 2006).

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Once editing was complete, the data could then be coded as discussed below.

6.3.2 Data coding

The data set was coded by assigning a code to each data point. For this purpose, an electronic codebook was created within the SPSS data file.

All questions in the questionnaire were closed-ended, i.e. a range of possible responses was provided for the respondents to choose from. For some questions an open-response category was offered by including 'other' (please, specify)…….' field, which allowed some respondents to provide an alternative answer, in case none of the provided response options was suitable. Upon examination of these additional responses new codes were created to enable entry of these data in the data set.

6.3.3 Data cleaning

The researcher manually entered the data from the 114 eligible questionnaires into an SPSS spreadsheet. Special care was taken to transcribe the data correctly. The values in each cell of the spreadsheet were checked and double-checked multiple times to guard against entry errors and omissions. A visual check of the responses for each answer was performed to ensure accuracy and data completeness. In addition, frequency analysis was used to screen the data for out-of-range values (Churchill et al., 2010).

6.3.4 Missing values analysis

The extent of missing values was examined first (Hair et al., 2010). Five questionnaires (of the 114 retained for analysis) contained some missing data. Even though these were single values scattered randomly throughout the data, they were further analysed to ensure they would not create problems.

Missing data were found in the categorical data (i.e. sections 1 and 3) and the metric data (section 2). In terms of the latter, very few values were missing and they were randomly distributed among the entire data set (see Table 6.2 in the Appendix for further detail and clarification). Either single data points were missing (e.g. one item out of a whole battery of items pertaining to a particular construct) or all items for a construct were missing, i.e. an entire question not being answered. In two cases, respondents appeared to have missed an entire page in the survey. However, this page (the same page in both surveys) had only two questions printed in it, and a decision was made to retain these two surveys because 90% of the questionnaire data were present.

Overall, the missing data accounted for 6.94% of the metric data (calculated following the pattern suggested by Hair et al., 2010).

For the company-related demographic data (section 3 of the questionnaire), one variable had incomplete data (three items non-response), which accounted for 2.63% of all data. However, there was a prior expectation for a possible non-response to the question related to this variable because of its potential sensitivity. This question asked about the company's yearly advertising spend. In an attempt to reduce the sensitivity, broad dollar ranges were provided

as response categories for this question. Only three respondents did not provide answers to this question. Because a non-response to this particular question was anticipated, it was the last question in the survey so it could not possibly adversely affect the responses to other questions. The absent data were anticipated, and the lack of three data points for this particular question did not make any difference for model testing purposes; therefore, these three missing values were not considered capable of biasing the research findings.

Furthermore, the overall percentage of missing values (metric and categorical) was only 9.57% (i.e. 6.94% of missing data in the continuous variables and 2.63% in the categorical variables). When the extent of missing data is limited to less than 10% of the total data set, following any strategy for missing values replacement produces similar results (Hair et al., 2010). Hence, a mean substitution strategy was used to resolve the missing values issue.

6.3.5 Checking for biases

6.3.5.1 Non-response bias test

The non-response bias test is based on the assumption that those sampling unit that respond to a survey after the second (or third, fourth, etc.) wave of mail-outs, are more similar to non-respondents than to those who responded after the first mail-out (Armstrong et al., 1977). If the test indicated that the late respondents differ in a statistically significant way from the early respondents on some key criteria, this would mean that non-response bias was present and the two groups did not originate from a population with the same characteristics, hence

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they should not be analysed together, as if they represented one homogeneous population. As a consequence, the researcher would not be able to conclude how the total sample would have responded (Armstrong et al., 1977). This, in turn, would make it impossible to generalise the research results over the total population of interest.

In the present study, of all the 114 valid questionnaires, 89 were received after the first wave of the mailed surveys (approximately 78%) and 25 (about 22%) were late arrivals, i.e. were received after the second mail-out. This difference in behaviour between sample units warranted further examination in view of detecting possible non-response bias.

The non-response bias test for this study was conducted by means of the Mann-Whitney U Test (Mann & Whitney, 1947) for differences between two groups. It was chosen because it is a non-parametric test and as such is applicable to the present data, as they do not follow normal distribution. The Mann-Whitney U Test tests the null hypothesis that the difference in the means of the two groups of respondents, the early ones and late ones, is zero that is, they come from populations with the same distributions (Henseler et al., 2009). The null hypothesis cannot be rejected if the test statistic is not greater than 1.96 at the 5% confidence interval and the p-value is non-significant, i.e. $p > 0.05$ (two-tailed test).

The two groups, comprised of the early and late respondents respectively, were compared on four factors, respondent firm's size, rate of change of agencies, number of agencies used simultaneously and length of experience in the job. The Mann-Whitney U Test revealed that no significant differences existed between the two groups, i.e. the z-value was smaller than 1.96, and the p-value was higher than 0.05, two-tailed test, for each considered variable (Table 6.3 in the Appendix). This allowed the two groups to be considered sufficiently

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similar (Armstrong et al., 1977). That is, those who responded early and the late respondents did not appear to be different. Thus, no evidence of response bias was found. This enabled the researcher to combine the two groups into one for further data analysis.

6.3.5.2 Common method bias test

When all the data in a survey are collected using the same data collection instrument, and the same respondents answers questions about the dependent and the independent variables, a common method variance (CMV) is possible (Podsakoff et al., 2003). If present, CMV can bias the correlations among the variables (Lindell & Whitney, 2001), thus confounding the results. To ensure that the data in this study were not be affected by this problem, the following measures were implemented to minimise the common method bias at the survey design stage. The questionnaire was pre-tested to identify and correct ambiguous and vague questions, as described in Chapter 5; the questions were kept simple, and double-barrelled questions were not used. As suggested by Podsakoff et al. (2003), the questionnaire was designed to ensure respondents' anonymity, i.e. no questions were asked about the informant's identity, company's identity or any personal details, thus decreasing the chances of non-response.

After the data were collected, statistical methods were employed to determine whether common method variance and associated common method bias existed (Podsakoff et al., 2003).

To test if CMV was a problem in this study, the Herman's one-factor test (Podsakoff et al., 2003) was performed using principal component factor analysis (PCA). "The basic assumption of this technique is that if a substantial amount of common method variance is present, either (a) a single factor will emerge from the factor analysis or (b) one general factor will account for the majority of the covariance among the measures. (Podsakoff et al., 2003, p.889). The results of Herman's single factor test are shown in the Appendix section, Table 6.4.

The unrotated solution resulting from the PCA of the data indicated that no single factor existed and that one general factor did not account for more than 50% of the variance (see Table 6.4 for specific results). Eight factors with eigenvalues greater than one were extracted, and none accounted for more than 32.5% of the variance. This provides some assurance that CMB is not present (Podsakoff et al., 2003; Guenzi, Georges & Pardo, 2009). Hence, it can be concluded that the steps undertaken to eliminate CMB during the design stage of the survey contributed to data that did not exhibit CMV as verified by the result of Herman's one-factor test.

6.4 Data analysis

6.4.1 Sample profile

Tables 6.5, 6.6, 6.7 and 6.8 summarise the characteristics of the respondents and the companies they represented. As can be seen from the data (Table 6.5), 40% of the sample were Marketing Directors, approximately 31% were Marketing Managers and 6% were Advertising Managers. The titles Corporate Communications Manager and General Managers

were each represented at 2.6%. About 18% of the sample had various other titles, such as Marketing Communications Manager, Brand Manager, etc.

Table 6.5. Respondent Profile

Approximately 52% of the respondents indicated that they had more than 9 years of experience in selecting agencies, 16% had between 6 and 8 years, 17.5% had 4–5 years and almost 15% had 2–3 years of experience. These results indicate that the respondents had solid first-hand experience with the phenomenon of interest, hence they were very well qualified to answer the survey questions.

In terms of type of business, 43% of the sample represented consumer goods businesses and 17.5% were marketers of consumer services, i.e. more than 60% of the sampled businesses operated in consumer marketing (Table 6.6). This was not unexpected

because consumer marketers tend to use media advertising (and thus need an advertising agency) more often and spend more money to advertise than B2B marketers (Harvey et al., 1988). Indeed, these firms spend the most advertising dollars. Companies in both consumer and business services markets accounted for over 11% of the sample, and marketers of both consumer and business goods were 7%. Marketers of business services accounted for 8% of the sample.

Location wise, by far the largest proportion (approximately 53%) of participants were from companies headquartered in New South Wales NSW. The second largest group was from Victoria (almost 31%), followed by Queensland-based businesses (about 8%).

All the other states together accounted for 8% of the sample. This spread mirrors the national statistics for Australian businesses' geographic distribution by states (Australian Bureau of Statistics, 2012).

Over 40% of the survey participants represented companies with 50–500 employees, 11% represented large organisations with 501–1000 employees, 15% came from very large firms employing 1001–4000 people and 21% reported that their firm employed more than 4000 employees. That is, almost half (47%) of the surveyed businesses were large or very large organisations, and 40% represented firms with 50–500 employees. The rest of the sample (12.3%) represented small businesses with less than 50 employees. These results are consistent with the fact that a larger proportion of major advertisers are found among large companies in Australia because they have the financial resources to advertise frequently and need to retain agencies for this purpose.

In terms of yearly advertising spend, the largest group of respondents (over 26%) reported a spend of 1.1–5 million dollars, about 23% of the sample indicated their company spent 11–50 million dollars per year, approximately 18% of the sample had a budget of 5.1–10 million dollars and 15% spent 101,000–1 million dollars per year. Only 3.5% of the survey participants said their budget was over 100 million, and 6% fell in the annual expenditure band of 51–100 million.

A variety of industries were represented in the sample (Table 6.7), with the most partici-pants (i.e. 20%) coming from the retailing industry, 11% from manufacturing and 8% from the communications industry. Banking and financial services accounted for almost 8%, 6%

represented industries related to culture and recreation and over 5% were government agencies. For further details, please see Table 6.7.

In brief, the sample profile indicates that the data were collected from key informants who were sufficiently experienced and competent to answer the questions. The informants represented a wide variety of industries and geographic locations, which ensured that the research findings can be confidently generalised over the entire population of interest to this study.

In addition to the demographic characteristics of the respondents and their companies, the survey also provided information on how companies behave with respect to using their advertising agencies (Tale 6.8). The largest proportion of the sample, almost 40%, indicated that their company changed agencies every 4–5 years, which is in line with global statistics on the average agency tenure, i.e. between 4–7 years (So, 2005; West, 1997). The second largest group in this category (28%) noted that their firms change agencies every 2–3 years.

When it comes to advertising agencies' size, 37% of the respondents did not seem to necessarily choose agencies of a particular size. It appears that the preference for particular agency sizes depends more on the tasks for which the agencies are hired.

Twenty-one percent of all respondents indicated that they chose medium-sized agencies (10–75 employees), about 18% preferred to use large agencies (more than 75 employees) and 14% tended to choose smaller agencies (up to 9 employees).

In relation to the use of one or more agencies at a time, 50% of respondents indicated that they employed one agency at a time and 46% used more than one agency simultaneously.

To summarise, this section discussed the characteristics of the respondents and the companies they represented. A comprehensive profile of the sample was presented based on the obtained information. The next step in the data analysis describes the choice of PLS as a method for structural equation modelling (SEM).

6.4.2 Choosing the appropriate SEM technique

To conduct SEM, one of two possible testing techniques must be selected: covariance-based SEM (CBSEM) or partial least squares path modelling (PLS PM) (Wold, 1982, 1985). This section offers a comparison of the two techniques examines their features and elaborates on their respective strengths and weaknesses. Parallel to this, the characteristics of the collected data are discussed to ensure a good fit between the chosen SEM technique and the features of the data. This leads to the conclusion that PLS PM is the most appropriate method of data analysis for this research.

As mentioned briefly in Chapter 5, SEM can be conducted through one of two distinct statistical algorithms: CBSEM, of which SEM maximum likelihood estimation (MLE) (Joreskog, 1967) is the most popular technique, or variance-based PLS PM (Wold, 1982). The dominant SEM paradigm is the CBSEM with MLE (Anderson & Gerbing, 1988; Barroso & Carrion & Roldan, 2010; Chin, 2010,), which was made popular with the LISREL software for model estimation. However in recent years, with the development of a number of PLS software packages PLS (Lohmöller, 1989; Wold, 1982) has been gaining increasing popularity (Henseler et al., 2009) mainly due to its ability to handle smaller samples and a larger number of variables as well as reflective and formative models. Although both

techniques can be used to estimate SEM models, they apply different statistical approaches and procedures to this task. In general, they differ in their underlying assumptions, objectives and estimation procedure (Barroso et al., 2010). These differences will be discussed next.

6.4.3 Strengths and weaknesses of CBSEM MLE

CBSEM with Maximum Likelihood Estimation (MLE), is widely used in marketing and management research (Reinartz, Haenlein & Henseler, 2009). As a parametric statistical technique, it imposes a number of requirements on data, such as multivariate normality, large sample sizes of at least 200-250 cases (Reinartz et al., 2009) and independence of observations (Hair et al., 2010). Two observations are considered independent of each other if the occurrence or non-occurrence of one observation does not influence the occurrence of the other observation and vice-versa (www.nedarc.org). Additional requirements involve latent variables that are measured reflectively, with at least three indicators per latent variable (Chin 1998b; Hair et al., 2010). Provided these requirements are satisfied, CBSEM can produce accurate estimates of the model's parameters. However, when the assumptions are violated, the estimation procedure could stall, i.e., it could end in non-convergence or in an improper solution (Reinartz et al., 2009). Non-convergence may occur "when an estimation method's computational algorithm, within a set number of iterations, is unable to arrive at values that meet prescribed, termination criteria" (Joreskog, 1966, 1967, cited in Anderson & Gerbing, 1988, p. 415). An improper solution is associated with parameter estimates exhibiting negative variance, i.e., unfeasible results (Anderson & Gerbing, 1988).

As previously mentioned, CBSEM is mainly applicable to reflective measurement models. A model is reflective if all its LVs are reflective i.e., "each manifest variable is considered as a reflection of a latent variable existing a priori, a theoretical concept measured through the observed variables" (Tenenhaus, Paget, Ambroisine & Guinot, p.321). When an LV is reflective, the direction of causality is from the LV to the indicators (Bollen & Lennox, 1991, cited in MacKenzie, Podsakoff & Jarvis, 2005; Jarvis, Mackenzie & Podsakoff, 2003; Henseler et al., 2009). Exactly the opposite is true for formative LVs, because the direction of causality is from the indicators to their LVs, i.e. the indicators seem to be causing the latent variables (Jarvis et al., 2003; Williams, Edwards & Vandenberg, 2003). When formative measures are included in a model estimated by CBSEM, the quality of the estimates may deteriorate, and in some cases, researchers report "drastic decreases in quality" (Vilares, Almeida & Coelho, 2010, p. 302), hence it seem formative measures are best avoided in model testing using CBSEM. In reality, though, not all unobservable constructs of interest to researchers can be modelled as reflective, hence the need to also utilise formative constructs (Henseler et al., 2009).

CBSEM MLE is employed when researchers investigate the extent to which an a priori model, constructed on the basis of well-developed theory, or experience (Hair et al., 2010), fit purposefully collected empirical data (Chin 1998a; Haenlein & Kaplan, 2004, both cited in Barroso, et al., 2010). The central tenet of CBSEM is the use of the maximum-likelihood estimation (MLE) of the structural equations. Being a covariance-based technique, SEM estimates the model parameters in a way that aims to minimize the difference between the covariance matrix of measured variable values observed in the sample and the covariance matrix implied by the model (Henseler et al., 2009). To achieve this, the CBSEM ML algorithm minimises the residual covariance and maximises the explained covariation among the observed variables, i.e., the indicators (Reinartz, Haenlein & Henseler, 2009). The extent

to which the sample data provides empirical support for the proposed theoretical model depends on how well the proposed model accounts for all item covariances. A measure of this is the goodness-of-fit (GoF) test. Based on the chi-square statistic, the GoF is a global optimisation function generated by the CBSEM MLE algorithm (Cunningham, 2008). The GoF, however, does not indicate how well the variables or the items are predicted (Chin, 2010, p. 657). In fact, when it comes to prediction, CBSEM MLS is at a disadvantage because of its inability to calculate accurate factor scores (Hanseler et al., 2009) and hence to predict the dependent variables (DVs) (Reinartz et al., 2009). If the researcher's goal is prediction, CBSEM is not the right methodological choice; it is best used for theory development and confirmation (Chin, 1998a).

Further, CBSEM is highly sensitive to the inclusion of incorrect items or constructs in the model, i.e., model misspecification (Henseler et al., 2009). As Chin (2010) points out, an item that does not belong with a measure can impact estimation throughout the entire model; likewise, a path that has been left out of the model can generate similar problems. As such, CBSEM should be applied only when the researcher employs well established measures for the LVs and when the constructs' nomological networks are sufficiently well identified and supported by prior theory (Henseler et al., 2009). It is for this reason that researchers using CBSEM MLE aim to investigate the extent to which an a priori model, constructed on the basis of well-developed theory, or experience (Hair et al., 2010), fit purposefully collected empirical data (Chin 1998a; Haenlein & Kaplan 2004, both cited in Barroso et al., 2010).

In brief, CBSEM MLE is well-suited for theory development and confirmation purposes. CBSEM tends to perform best in smaller models with larger samples where each parameter is important and, therefore, accurate parameter estimation is essential (Wold, 1985, cited in Barroso et al., 2010). In contrast, if the model has a larger number of variables, the sample

size is relatively small, and prediction of the DV is sought, PLS PM is a better choice, as will be discussed in more detail below.

6.4.4 Strengths and weaknesses of PLS path modelling

PLS represents a different, variance-based approach to SEM estimation. It has been described as "a family of alternating least squares algorithms" (Henseler, Ringle & Sinkovics, 2009, p. 284) that extend principal component analysis and canonical correlation analysis to estimate relationships between latent variables (Lohmoller, 1989, cited in Sarstedt, Henseler & Ringle, 2011).

PLS is a component-based, non-parametric method, which, unlike CBSEM, does not require the multivariate normality of data (Chin, 1998; Tenenhause et al., 2005). This creates an immediate advantage for PLS over CBSEM. In order to use CBSEM, prior analysis of the data would need to be transformed in order to conform to a normal distribution. However, the process of transformation may alter the interpretation of the variables (Hair et al., 2010), which in turn may impact negatively on the results. By comparison, PLS can be applied to data that do not follow a normal distribution, thus retaining all the original features of the data set.

Another advantage of PLS is that it can estimate models with smaller minimum sample sizes, compared to CBSEM MLE, and is more appropriate with more complex models comprising a larger number of LVs and indicators (Chin & Newstead, 1999; Henseler et al., 2009). The PLS rule of thumb for a minimum sample size, if the model is reflective, is 10 times the

number of predictors (i.e., independent variables) of the DV with the most predictors (Chin & Newstead, 1999; Hair, Sarstedt, Ringle & Mena, 2012). In addition, PLS handles equally well reflective and formative models as well as mixed ones (Henseler et al., 2009).

The objective of PLS path modelling is to maximise the explained variance in the dependent variable/s; thus, it is well-suited for prediction-oriented research (Anderson & Gerbing, 1988; Chin, 1998; Heinlein & Kaplan, 2004). It utilises a two-step, iterative estimation procedure, which calculates the latent variable scores as "exact linear combinations of the observed measures" (Henseler et al., 2009, p. 297). For this reason, the latent variables are referred to as "components" in the PLS context. This provides for the calculation of accurate factor scores and the coefficient of determination, R^2, for the dependent variable/s; that is, the PLS estimation produces results that allow researchers to predict the dependent variable (Barosso et al., 2010) because it aims to maximise the explained variance in the dependent construct (Chin, 2010, p. 172). In contrast, the predictive accuracy of CBSEM MLE is undermined because the factors are undefined due to the fact that they are not perfect linear combinations of their indicators (Fornell & Larcker, 1981). PLS has been criticised for estimating inconsistent parameters (Reinartz et al., 2009). This can happen when the underlying data are generated from a covariance-based model (Chin, 2010). However, Chin argues that "if we are estimating the population model as defined by PLS, the estimates will be consistent" (Chin, 2010, p. 663).

It follows from the previous discussion that PLS should be the preferred method of parameter estimation when the researcher's goal is to predict the dependent variable, as opposed to testing a measurement theory, which is the primary purpose of CBSEM methods.

Being a non-parametric technique, PLS lacks a parametric inference system (Vinzi, Tranchera & Amato, 2010), but the statistical significance of the estimated causal paths in the inner and outer models are empirically derived through a non-parametric bootstrapping operation (Chin, 1998; Efron & Tibshirani,1993; Tenenhaus et al., 2005). "Bootstrapping is a technique that samples data from within the data set and generates standard errors based on repeated estimates of sample parameters (Cunningham, 2008, pp. 1-24). The bootstrapping operation is a computer-intensive resampling with replacement from the original data (Tenenhaus et al., 2005), which calculates the statistical significance of the PLS path estimates in an empirical manner.

The ability of PLS to handle complex relationships among multiple interdependent multi-item variables makes it a very useful approach for estimating models with many LVs and a large number of MVs [measured variables] (Chin, 1998). Such models are beyond the capacity of CBSEM MLE; hence, PLS is the only SEM method available to researchers to explore models of such magnitude. PLS can provide robust estimates of complex models that comprise of many latent variables measured by a large number of indicators (e.g. Kleijnen, de Ruyter & Wetzels, 2007, p. 40).

Unlike CBSEM, PLS does not have a global optimisation function and lacks measures of goodness of fit (Hanseler et al., 2009). CBSEM estimation procedure provides goodness-of fit measure for the model, which evaluates "the ability of the model to account for the sample covariances and therefore to assume that all measures are reflective" (Chin, 2010, p.657). "SEM procedures ….that allow for formative measures (e.g. PLS) would, by definition, not be able to provide such fit measures" (Chin, 2010, p.657).

6.4.5 Research objectives revisited

To decide which SEM estimation procedure to use for this research, the research objectives must be considered first.. The research objectives imply the use of a technique that can predict and explore. PLS appears to be a better match than CBSEM MLE.

6.4.6 Characteristics of the collected data

Turning to the characteristics of the data for this research, the first thing to note is the sample size. From the CBSEM MLE point of view, this sample size is small. For the purposes of using CBSEM, Hair et al. (2010) recommend samples of at least 150 observations, provided that the data follows normal distribution, the communalities of the measured variables (MVs) are higher than 0.5, each construct is measured by at least three indicators and the model has seven or fewer constructs. The present data satisfies only some of these prerequisites, namely that all communalities are higher than 0.5 and each construct is measured by at least three indicators. However, the model is more complex; it has eight constructs. In addition, the sample size of 114 is less than the required minimum. It is by far too small for CBSEM to work well, even if all the other CBSEM assumptions held. The sample size should be at least 150 (Hair et al., 2010). In reality, researchers typically use samples of over 200 observations to avoid non-convergence and improper solutions associated with smaller samples (Boomsma & Hoogland, 2001, cited in Reinartz, Haenlein & Henseler, 2009, p. 4). This number (200) appears to be considered a standard minimum across a wide range of published research.

The present data set was checked for multivariate normality by examining the univariate normality of each variable (Hair et al., 2010). The skewness and kurtosis statistics as well as the respective Z values for skewness and kurtosis (Table 6.11 in the Appendix) as some of the criteria for normal distribution made it clear that several of these coefficients exceeded the critical values of +/- 2.58 (Hair et al., 2010). In general, the data appeared to be slightly negatively skewed and somewhat leptokurtic, which was also suggested by the normal probability plots (not shown here), which were run to explore the variables' distribution. In general, these values indicated that the data set did not conform to a multivariate normality.

6.4.7 Summary of data characteristics

The data deviated from normal distribution; hence, the assumptions of multivariate normality cannot be made. Consequently, this may be a problem for CBSEM but is not an issue for PLS.

a) The sample size is small, which is a problem for CBSEM but not for PLS PM, provided the requirement for the minimum sample size is observed, which is the case with the present data.

b) When CBSEM is used, the recommended sample sizes is at least 150 when the model has seven or fewer constructs, data are normal, each latent variable LV is measured by at least three indicators and the communalities are greater than 0.5 Hair et al. (2010). The present model consists of eight LVs that are each measured by three or more indicators; in addition, the communalities are higher than 0.5, but the data are non-normal. Clearly, even a sample of 150 would not be sufficient to enable the use of CBSEM.

c) The present model consists of 8 LV and 33 measured variables (MV), which qualifies as a complex model (Kleijnen et al., 2007). As mentioned before, CBSEM is better suited for testing relatively smaller models, whereas PLS can handle more complex models with many variables (i.e. 20 or more) quite well.

d) The model is reflective, i.e. both CBSEM and PLS can be used with reflective models.

6.5 PLS data analysis

This section describes how the research model was tested. It presents the approach taken to diagnose the outer model (i.e. the measurement model) for validity and then focuses on testing the inner model (i.e. the relationships among the latent variables or the structural model) by describing the results of the conducted path analysis (i.e. the method used to test the research hypotheses).

As outlined above, the partial least squares path modelling (i.e. PLS PM or PLS) (Wold, 1985) estimation approach was chosen mainly for its recognised suitability for prediction research applications (Henseler et al., 2009) and its ability to handle smaller samples (Chin & Newsted, 1999). The specific software package used was SmartPLS 2.0 Beta (Ringle, Wende & Will, 2005), a popular PLS program with bootstrapping functionality.

6.5.1 SmartPLS options selection and settings

The estimation procedure uses Mode A for models consisting only of latent variables (LVs) (Dijkstra, 2010; Hair, Ringe & Sarstedt, 2011). SmartPLS automatically selects this option.

The path weighting scheme for inner model estimation was chosen for this study because compared to the other two options, i.e. the centroid weighting and factor weighting schemes, the path weighting scheme is the only one that takes into consideration the arrow orientation in the path model (Henseler et al., 2009). Even though the differences in results using any of these three options are small (Henseler et al., 2009), choosing the path weighting scheme is more appropriate in testing causal models (Chin, 1998) such as the present one.

The starting value of the weights for the initial approximation of the LV scores was 1 (Hair, Ringle & Sarstedt, 2012) and the stop criterion set by the SmartPLS algorithm was 1.0E-5, while the maximum iterations were set at the default level of 300.

For the bootstrapping resampling operation, 500 samples were selected as an option (Chin, 1998, Chin 2010). The default number of bootstrapping resamples is 100 (Tenenhaus, Vinzi, Chatelin & Lauro, 2005, p.176), however, higher numbers (e.g. 200) may result in more reasonable estimates for the standard error (Tenenhaus et al., 2005). Most of the PLS research publications apply 500 samples (e.g. Henseler & Chin, 2010), however, fewer samples are also applied by leading researchers and methodologists in the field. For example, Guenzi et al. (2009) and Reinartz et al. (2009) used 200 samples. As mentioned earlier, after the present analysis was completed, very recent articles on methodological aspects of PLS published in 2012 /2013, promote the use of larger bootstrap sample, e.g. 5000 (e.g. Hair, et al., 2012).

In addition, the 'individual sign changes' option for the bootstrap estimates was selected, following recommendations by Tenenhaus et al. (2005) and Hanseler et al. (2009). In PLS, the outer and inner models are processed simultaneously; however, diagnostic tests are first performed on the measurement model to ensure it is reliable and valid (Anderson & Gerbing, 1988; Fornell & Larcker, 1981; Henseler et al., 2009). Only after validating the outer model can the researcher proceed to examine the inner model's soundness. This sequence is in place because it makes sense to diagnose the path model if the measures of the LVs are reliable and valid. If the manifest variables lack validity and reliability, they cannot provide good estimates for their respective LVs, which are the building blocks for a path model; thus, the model cannot be estimated reliably (Henseler et al., 2009).

The model constructed in Chapter 4 was drawn as a causal path model in SmartPLS. In this model, 18 arrows were used to represent causal links among the variables corresponding to the direct effect hypotheses of the proposed conceptual framework. The sample satisfied minimum size requirements but was not large enough to enable the allocation of a holdout sample. The entire data set had to be used in the model estimation.

The data analysis was conducted in line with the validation procedure for reflective PLS models, recommended in the SEM and PLS path modelling literature (e.g. Anderson & Gerbing, 1988; Chin, 1998; Vinzi et al., 2010; Fornell et al., 1981, Gotz, Liehr-Gobbers & Kraft, 2010; Hair et al., 2010; Henseler et al., 2009). Newer articles on PLS data analyses were published after this analysis was written (e.g. the articles in the 2012 special issue of the 'Long Range Planning' journal, dedicated to PLS SEM method). Most of the additional requirements for testing and reporting PLS research that these articles suggest have been incorporated into this data analysis write-up.

As discussed in Chapter 5, all the latent variables in this research were measured using multi-item scales, and each construct had at least three indicators. No single-item constructs were included (Hair et al., 2012). The research model only contained continuous variables, all of which were modelled reflectively. Altogether, the measurement model included 33 items. The structural model consisted of eight latent constructs; of these, four were exogenous and four were endogenous. Thus, it can be concluded that the model was balanced (Hair et al., 2012). In general, focused and balanced models are better suited for PLS PM prediction than unfocused models (Hair et al., 2012).

The data analysis began with outer model validation, which is discussed next.

6.6 Outer model validation

In order to check whether the indicators of each construct measure what they are supposed to measure, a test of convergent and discriminant validity needed to be performed (Chin, 2010). The constructs' unidimensionality and the measures' reliability were also assessed.

6.6.1 Testing for convergent validity

Convergent validity is evident when all the indicators associated with a construct represent this construct (Henseler et al., 2009). To prove this one has to demonstrate that the indicators

of a construct exhibit a high shared variance with this construct (Hair et al., 2010). It is assessed in the following ways (Hair et al., 2010):

a) High standardised factor loadings (λ) that exceed 0.707 (Nunnally, 1978, Fornellet al., 1981) and are statistically significant (Anderson et al., 1988);

b) The average variance extracted (AVE) for each construct is larger than 0.5 (Fornell et al., 1981). AVE measures the variance extracted from the indicators compared to the amount of variance due to measurement error (Fornell et al., 1981). It is calculated by dividing the sum of all squared standardised factor loadings of the block (i.e. the measure) by the number of indicators in this block; it should be larger than 0.5 (Henseler et al., 2009); and

c) Composite reliability for each LV exceeds 0.8 (Fornell et al., 1981).

Upon examination of the indicator loadings (i.e. outer loadings), it appears that 31 of 33 indicators show scores greater than 0.707, which is the minimum suggested by Nunnally (1978), needed to establish 'modest reliability' in the early stages of research (Barosso et al., 2010). Only two indicators, reputation 4 (λ = 0.697) and Risk 1 ((λ = 0.679), had slightly lower values. To satisfy the above-mentioned conditions, these two indicators were deleted and thus excluded from further analysis as recommended by the literature (e.g. Anderson et al., 1988). Following this, the model was recalculated.   The remaining 31 indicators had loadings over 0.707. The lowest score was 0.73 (reputation 5) and the highest was 0.972 (Fair Compensation 2). Of the 31 factor loadings, 8 scores were greater than 0.9, 16 scores surpassed 0.8 and 7 were higher than 0.73.

A bootstrapping procedure of 500 samples, obtained from the data with replacement, (Efron et al., 1993) estimated the t-values of the outer loadings. As shown in Table 6.13, in the Appendix, all these are statistically significant at $p < 0.001$, and all are greater than 0.707 in line with Fornell et al. (1981) and Nunnally (1978). Chin (2010) argues that the loadings of the items measuring one construct need to be high and close in value to each other to ensure convergent validity, i.e. the 'extent to which blocks of items strongly agree in their representation of the underlying construct they are created to measure' (Chin, 2010, p. 674).

In the present research, the factor loadings within each block of measured variables are very homogenous, i.e. close in value to each other, and vary within a relatively very narrow range, which is indicative of a good measurement model.

Finally, the reliability of the measures was assessed using the composite reliability scores that the PLS algorithm generated, as recommended by Hanseler et al. (2009). Cronbach's alpha coefficient of reliability was also calculated. These results are presented in Table 6.14. The composite reliability and Cronbach's alpha coefficients for all constructs fully meet and exceed Fornell & Larcker's criterion of being greater than 0.8.

6.6.2 Testing for unidimensionality

A set of items measuring a latent variable is unidimensional if the items are explained by their underlying construct, i.e. all the items load on only one construct (Hair et al., 2010). The unidimensionality of a block of reflective measures can be validated in three ways (Tenenhaus et al., 2005):

a) performing principal component analysis (PCA) on the data for each construct. If the first extracted eigenvalue is larger than 1 and the second is smaller than 1, the unidimensionality is ensured;

b) calculating the Cronbach's alpha coefficients. If these are larger than 0.7 and all indicators in a block are positively correlated, this indicates unidimensionality; the higher the Cronbach's alpha, the stronger the evidence of unidimensionality;

c) calculating the composite reliability. Provided the items loadings are positive, composite reliability scores higher than 0.7 indicate unidimensionality in the LVs.

The PCA analysis conducted for each construct resulted in the first eigenvalues larger than 1 and the second eigenvalues smaller than 1 (see Table 6.15 for specific details).

Further, all the loadings are high, surpass the 0.707 level and are positive (Table 6.13). The composite reliability scores are well over the minimum required level of 0.7 and are higher than 0.89 (Table 6.14). All the items in each of the eight blocks are positively correlated; the Cronbach's alpha coefficients are higher than 0.7, with the lowest value being 0.816. Thus, it can be concluded that the three tests provide sufficient support for the unidimensionality of the measures.

6.6.3 Discriminant validity

Discriminant validity is demonstrated when items for a LV load stronger on their own latent variable than other LVs in the model. Discriminant validity is present if a score on a scale does not correlate with scores on scales designed to measure another LV in the model (Cooper et al., 2006; Hair et al., 2011). Following the recommendations of Henseler et al. (2009), three measures of discriminant validity were assessed: two at construct level and one at indicator level (i.e. crossloadings).

The first diagnostic test to demonstrate the existence of discriminant validity used the square root of AVE for all constructs, which must be greater than the correlations of all variables (Fornell et al., 1981; Fornell & Bookstein, 1982). As can be seen in Table 6.16, this requirement was fully met. The results indicated that each correlation was smaller by a sizeable margin than the respective square root of AVE for each LV.

Fornell et al. (1981) proposed the most stringent assessment for unidimensionality at the construct level. According to their criterion for unidimensionality, the AVE extracted for each block of scales must be larger than the squared correlations with all the other variables. As shown in Table 6.19, this holds for all measures in the model. Special attention was paid to variables that were conceptually close to each other, such as the two service quality dimensions, service delivery and campaign quality. The squared correlation of campaign quality and service delivery was 0.27, the AVE for campaign quality was much greater (0.64) and the AVE for service delivery was 0.73 (Table 6.17). Clearly, there was strong evidence

of discriminant validity between the two dimensions of service quality. The same held for the other constructs in the model

Discriminant validity at the indicator level was assessed by examining the crossloadings of each MV on each LV (Hanseler et al., 2009). The requirement for indicator discriminant validity is that the correlations (i.e. the loadings) of each indicator with the LVs it does *not* measure should not be higher than its correlations with the LV it *does* measure. Table 6.18 indicates that this requirement was not only met but also exceeded.

As a recent PLS methodological development, a method for empirical testing of the mode of construct's measurement models has been developed, known as Confirmatory Tetrad Analysis (CTA) (Gudergan, Ringle, Wende & Will, 2008). However, at the time of writing this thesis there are no available software applications to assist in applying this new method to a PLS model, hence CTA has not been conducted.

In conclusion, data analysis showed that the outer model complied fully with all conditions for reliability and validity for PLS reflective models, which meant the indicators were fully capable of representing the latent variables of the model. Hence, the analysis could proceed with examining the relationship among the latent variables in the path model. This is described in the next section.

6.7 Inner model validity

This section presents the results of testing the structural model. The statistical significance of the results is assessed using the typical alpha (α) level of 0.05 (Hair et al., 2010).

6.7.1 Overview of descriptive statistics

The descriptive statistics presented in Table 6.19 reveal high mean values for the constructs, ranging from 5.34 to 6.15 on a Likert scale from 1 ('strongly disagree') to 7 ('strongly agree'). This indicates high relative agreement among respondents with all the questions.

The inter-correlations of the constructs are also shown in Table 6.19. Of all 28 correlations 26 are statistically significant at $p < 0.01$, 2-tailed test, while two are significant at $p < 0.05$, two-tailed test. The inter-correlations of the independent variables vary from 0.202 to 0.542. The correlations between two explanatory variables, trustworthiness and compensation fairness, and the dependent variable, expected service value are somewhat higher, at 0.575 and 0.662, respectively.

The next part of this section presents the structural model validation procedure.

Henseler et al. (2009) recommended that the PLS structural models be assessed against four criteria:

- coefficients of determination for the endogenous variables;
- size of path coefficients and their statistical significance;
- effect size; and

- prediction relevance.

As mentioned earlier, unlike CBSEM, PLS lacks a global Goodness-of-Fit (GoF) index that evaluates the overall model. Therefore, evaluation of PLS models quality is commonly based on the above four criteria. Additionally, a GoF for PLS models has been proposed by Tenenhaus et al. (2005). It is only appropriate for reflective PLS models (Henseler et al., 2012). The GoF index was calculated for the present model and was incorporated in the analysis of the structural model quality. Table 6.20 outlines the quality criteria for inner PLS models and lists the cut-off values associated with each of them.

Step 1: Evaluate the coefficients of determination, R^2

The coefficient of determination of an endogenous variable identifies the proportion of the variable that is explained by its predictor variables. As such, R^2 is the most important indicator of how well the model is able to explain the dependent latent variables. R^2 is a normalised parameter (Gotz et al., 2010) and can vary from 0 to 1. Chin (1998a) considers R^2 values of 0.67, 0.33 and 0.19 to be substantial, moderate and weak, respectively. However, Ringle, Sarstedt & Mooi (2010) interpret R^2 values of 0.23 as moderate. According to Hanseler et al. (2009), variables with only one or two paths pointing at them can have medium R^2 levels, but those with more predictors should score higher within the substantial levels' range (Hanseler et al., 2009).

The PLS results for the model indicate that the ultimate dependent variable expected service value has an R^2 of 0.609, which can be qualified as good and close to substantial (i.e. 0.67), or within the substantial R^2 range. This means the model of factors predicting the choice of an

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advertising agency explains almost 61% of the variance in expected value, which was the proxy for choice of an advertising agency in this study.

The other endogenous variables exhibit good R^2 scores as well. Trustworthiness (0.412) is in a range between medium and substantial, while lower perceived risk (0.30) is very close to medium. Campaign quality, with only one path pointing at it, exhibits a low-medium value of its R^2 (0.261). This means that service delivery explains more than 25% of the variance in campaign quality. Service delivery (i.e. the other dimension of service quality) is not expected to account for much more than that in the variance of campaign quality because other factors (that are not part of this model) also impact campaign quality, such as quality of people currently working for the agency, agency's amount of experience, agency's creative ability, etc. Therefore, the lower R^2 for campaign quality is not surprising and should not be interpreted to mean the model is unable to explain this endogenous latent variable. One should keep in mind that the main reason service delivery and campaign quality are in the model is to examine if they affect the DVs and how strongly these screening factors predict the choice of an agency. A secondary objective is to test the hypothesis that service delivery is causally related to campaign quality. That is, the success of the creative pitch campaign is predicted by the agency's service delivery, i.e. the way the agency staff approaches the creative briefing and how they fulfil the brief's requirements. Based on Ringle et al. (2010), it must be concluded that the impact of service delivery on campaign quality is in the medium range for R^2.

In summary, the R^2 scores of the endogenous variables range between 0.26 and 0.61. This range is typical in structural modelling research (White et al., 2003, cited in Yi and Gong, 2008). Most importantly, the R^2 of 0.61 for the DV expected service value is in the range of

substantial prediction, based on Chin (1991) and this result indicates that the model is capable of predicting the DV.

Step 2: Evaluate the path coefficients

The following section discusses and evaluates the path coefficients' values obtained in the data analysis in terms of their sign, magnitude and significance.

a) Sign

All the signs, except for the two paths emanating from campaign quality, were in the expected direction, i.e. they were positive, which was what the conceptual model hypothesised them to be (Table 6.23). According to Henseler et al. (2009, p. 304), such findings alone provide 'a partial empirical validation of the theoretically assumed relationships between latent variables' in the model, except for the paths from campaign quality to lower perceived risk and to ESV. Contrary to expectations, these two paths were extremely small in value, negative and statistically non-significant. The paths from campaign quality to LPR (β = -0.001) and to expected service value (β = -0.032) were not in the expected direction. However, this situation may have been due to potential mediation effects through trustworthiness, which will be examined later in this chapter.

b) Magnitude

There were 18 paths in the model. Seven of them had standardised regression coefficients larger than 0.2, which is indicative of a robust association between two variables (Chin, 1988). For example, the effect of reputation on lower risk had a β of 0.270 (Table 6.20). Five paths had βs between 0.1 and 0.2. Three (campaign quality-trustworthiness, trustworthiness-risk and trustworthiness-value) were close to 0.2; they were 0.183, 0.175 and 0.177,

respectively. The latter path may be smaller due to mediation effects, which will be tested later. Six paths had values lower than 0.1.

c) Significance

The significance level of the path coefficients can be established by first conducting a bootstrapping operation, which provides the t-values for each path (Henseler et al., 2009). The t-values are then interpreted for significance using the Student's t-distribution statistical table; thus, the significance of each path in the model is determined (Tenenhaus et al., 2005). Of the 18 significant paths, 12 had β coefficients that were statistically significant at the 95% (or higher) confidence interval, i.e. $p < 0.05$, 1-tailed test (Table 6.21). The significance levels of the path coefficients were based on one-tail tests because the model only tested directional hypotheses (Yi & Gong, 2008).

Six paths were not statistically significant, i.e. $p > 0.05$. However, even though the direct path between service delivery and trustworthiness was statistically non-significant, i.e. $p > 0.05$, the total effect for this relationship was statistically significant ($\beta = 0.156$; t value = 1.659, p < .05). The total effect includes the direct and indirect effects. The reason for this may be that, as Henseler et al. (2009) note, with the inclusion of more indirect relationships in a PLS model, the standardised inner paths coefficients decrease in magnitude and significance. Referring to the new paradigm for the assessment of a PLS model, proposed by Albers (2009, cited in Henseler et al., 2009, p. 304) Henseler states that:

> the significance of highly plausible direct inner path model relationships is
> no longer of interest to researchers and practitioners. Rather, the sum of the

direct effect and all indirect effects of a particular latent variable on another

(the total effect) should be the subject of evaluation for further interpretation.

Thus, the total effects (shown in Table 6.21B) should be consulted in establishing the inner paths' significance, provided the total effect remains constant and stable (Henseler et al., 2009). On this basis the service delivery - trustworthiness path should then be considered significant. This causal relationship will be discussed in more detail in the following section, when all the mediating effects will be analysed.

Step 3: Determine effect size

Effect size tests how strong the impact of an independent variable is on the dependent variables by means of the change in R^2 (Cohen, 1988). It is measured by examining the change in R^2 when the tested independent variable is excluded from the model and comparing with R^2 when the independent variable is included (Hanseler et al., 2009; Gotz et al., 2009). The following formula is used to calculate the effect size:

$$\text{Effect size: } f^2 = \frac{R^2 \text{ incl.} - R^2 \text{ excl.}}{1 - R^2 \text{ incl.}}$$

According to Cohen (1998), the values obtained when applying this formula are considered weak when they are around 0.02, moderate if they are about 0.15 and substantial when they are around 0.35. The present model has four endogenous variables that can be examined for effect size: expected value, lower perceived risk, trustworthiness and campaign quality. Judging by the effect size of the independent variables on the dependent ones (Table 6.22), it

can be concluded that compensation fairness has a substantial effect on trustworthiness (0.39) and service delivery also has a large effect on campaign quality. Lower perceived risk has close to a medium effect on expected service value. The rest of the effect sizes are either low or in the low-to-medium range.

Step 4: Predictive relevance, or predictive validity

The most important criterion for PLS models' quality is based on analysing the coefficient of determination R^2 for the endogenous variables. R^2 indicates how much of the variance of the endogenous variables is explained by the model; this allows the predictive ability of the model to be assessed.

Another criterion, Stone-Geisser's predictive relevance (Stone, 1974; Geiser, 1975), is also commonly used in the evaluation of PLS models as an additional test of model fit (Chin, 2010; Duarte et al., 2009). The Stone-Geisser's coefficient, Q^2 (Stone, 1974; Geiser, 1975), is indicative of the model's ability to predict the observed variables, i.e. the indicators, via the cross-validated communality Q^2 (Chin, 2010) as well as to assess the predictive ability of the structural model via the cross-validated redundancy Q^2 (Chin, 2010; Hair, Sarstedt, Ringle & Mena, 2012). It is computed by calculating two coefficients: cross-validated (cv) communality, which indicates the model's capacity to predict the indicators and cross-validated (cv) redundancy, which indicates the model's ability 'to predict the endogenous manifest variables' (Duarte & Raposo, 2010).

Manifest variable prediction is of extreme importance in PLS path modelling (Chin, 1998, cited in Henseler et al., 2009, p. 305; Chin 2010). It is calculated using the blindfolding

procedure, a kind of resampling technique with omission, available in PLS software packages. This test is applicable to reflective models (Lew & Sinkovics, 2013). The blindfolding procedure systematically assumes that a part of the raw data matrix is missing during the parameter estimation. It removes some data from the sample and treats them as missing data' (Gotz, Liehr-Gobbers & Krafft, 2010, p.702). That is, the blindfolding procedure omits (i.e. blindfolds) one case at a time and re-estimates the model parameters using the remaining cases. This makes it possible to predict the omitted case's values from the remaining cases (Duarte & Raposo, 2010). This is feasible with the blindfolding technique because PLS can generally estimate the construct values even with some missing data. The blindfolding procedure makes two PLS parameter estimations: with the full data set and with part of the data only. The obtained parameters from the second model's estimation procedure, when part of the data is missing, are used to reconstruct the data set, i.e. to estimate how well the constructed model is capable of predicting these data points. In other words, Q^2 represents a measure of how well observed values are reconstructed by the model and its parameter estimates' (Chin, 1988, cited in Duarte et al., 2010, p. 471). Chin (2010) argues that predictive relevance is more informative than the R-square and AVE statistics, because "the latter two have the inherent bias of being assessed on the same data that were used to estimate its parameters and thereby raises the issues of data overfitting"(Chin, 2010, p.85).

The Stone-Geisser criterion posits that if the model is of good quality, it must be able to predict adequately the dependent variables' indicators (Hanseler et al., 2009). Models with Q^2 scores larger than zero have predictive relevance (Chin, 2010), and higher positive Q^2 are indicative of more predictive relevance (Duarte & Raposo, 2010). On the other hand, if Q^2 is less than zero, the model's predictive validity is low (Henseler et al., 2009; Gotz et al., 2010).

Two kinds of estimates are calculated for the predictive validity test: cross-validated communalities and cross-validated redundancies. According to Tennehaus et al. (2005), the cross-validated communality index 'measures the quality of the measurement model for each block. It is a kind of cross-validated R^2 between the block's MVs and their own LV calculated by the blindfolding procedure...' (p.174). The cv-redundancy, i.e. Stone-Geisser Q^2 index, measures the quality of the structural model. It is a cross-validated R^2 between the MV of an endogenous LV and all the MVs associated with its predictor LVs (Tenenhaus, 2005). If this index is larger than zero, predictive relevance is ensured.

To calculate cross-validated communalities and cross-validated redundancies, the blindfolding procedure available in the SmartPLS package was used. An omission distance of 10 (n=10) was applied in this calculation. The omission distance indicates that the blindfolding procedure omits (i.e. skips or blindfolds) every **nth** data point in the set, where **n** is the omission distance and must be an integer between 5 and 10 (Chin, 1988). This omission distance needs to be selected in such a way, so that when the number of valid observations in the sample is divided by it, the result should not be an integer (Chin, 1998). Ensuring this holds in the present study (i.e. diving the sample size of 114 by 10 is 11.4, which is not an integer) the cross-validated communalities and redundancies for the dependent variables were calculated. All these were greater than zero (Table 6.23), thus producing evidence for the predictive relevance and validity of the model (Chin, 2010).

The cross-validated redundancies were all positive, which indicated predictive relevance. Most importantly, the Q^2 for the ultimate DV, expected service value, was 0.51, which was slightly higher than the quality benchmark of 0.5 (Chin, 2010), thus confirming the model's

ability to predict the DV, expected value. Overall, the Q^2 tests confirm the model's predictive ability.

Finally, q^2 was calculated using the following formula to show the relative impact of the structural model on the observed measures for the DVs (Chin, 2010, p.680):

$$q^2 = \frac{Q^2 \text{ included} - Q^2 \text{ excluded}}{1 - Q^2 \text{ included}}$$

The relative impact of the model on the main DV, expected service value was 0.577, while q^2 values were 0.12, 0.15 and 0.146 for lower perceived risk, trustworthiness and campaign quality, respectively. These values are interpreted similar to Cohen's (1988) criteria for effect size (Henseler et al., 2009), i.e. a value of 0.35 is considered strong, a value of 0.15 is medium and values of 0.02 are considered weak. Therefore, the above results indicate a very good impact on the structural model for the prediction of the main DV, expected service value (i.e. $0.577 > 0.35$), while the other three results are around the medium impact range.

In brief, the cross-validated communalities and redundancies and the relative impact measures indicate a good predictive capacity for the model.

Step 5: Goodness-of-Fit measure

There is no global Goodness-of-Fit criterion in PLS (Vinzi, Trinchera & Amato, 2009) such as the chi square in covariance-based structural equation modelling. However, Tenenhaus et al. (2005) proposed a formula to calculate a Goodness-of-Fit (GoF) statistic to diagnose a

PLS model's overall fit (Wetzel et al., 2009). This index considers the performance of the outer and inner models (Vinzi et al., 2009). The GoF index (Tenenhaus et al., 2005) is calculated by obtaining the geometric mean of the average communality (an outer model quality measure) of the constructs and the constructs' average R^2 (an inner model quality measure). This simply means the average communality is multiplied by the average R^2 of the endogenous variables, and the square root of this product represents the GoF index (Tenenhaus et al., 2005). In calculating the average communality, the weighted communalities are used and the weights are the numbers of indicators in each measured variable's block (Duarte et al., 2010).

Following this formula, the GoF index calculated for the present model was 0.540. To judge the merit of the GoF index, Tenenhaus et al. (2005) recommend using Cohen's (1988) proposed criteria for evaluating PLS models' effect sizes, i.e. 0.02 is judged as a small effect size, 0.15 as a medium effect size and 0.35 as a large effect size of R^2. For example, if an average communality of a model is 0.6 and an average R^2 of 0.5 is calculated, the GoF is 0.6 x 0.5 = 0.3, of which the square root is 0.547. Larger GoF indices are considered better. Using this rule, the model's GoF of 0.540 was assessed as good because it was well above the benchmark for a substantial GoF index of 0.36 (Wetzels et al., 2009). Thus, the overall explanatory power of the model can be considered substantial (Kleijnen, de Ruyter and Wetzels, 2007).

This concludes the inner model's diagnostic procedure. To summarise, it appears that the model performed reasonably well or very well on all of the benchmark criteria; therefore, it was accepted as valid. Subsequently, the analysis will proceed with testing the research hypotheses.

6.8 Hypotheses testing

This section describes the results of the research hypotheses testing. All test results are presented in Table 6.24.

6.8.1 Hypotheses about the direct effects

6.8.1.1 Hypotheses H1, H4, H9, H10 and H16: antecedents to lower risk

The research model posited five antecedents to lower risk (LPR). These were expected to exert statistically significant influences on LPR and therefore to predict it. These relationships were represented in the model by respective hypotheses about the direct effects of the signal agency reputation; the screening variables agency rapport, service delivery and campaign quality; and trustworthiness on buyers' pre-purchase selection risk, i.e. LPR. The results indicate the following.

Hypothesis 1. Perceived agency reputation was positively related to lower perceived risk, and this effect was statistically significant ($\beta = 0.239$, t-value = 2.848, $p < 0.005$, one-tailed test). Hence, this hypothesis was supported.

The same outcome applied to **Hypothesis 4,** which posited that agency rapport would affect positively LPR. Indeed, a β of 0.261 and a t-value of 2.595 confirmed the statistical significance of this hypothesis at $p < 0.015$, one-tailed test. This led to the acceptance of H4.

Hypotheses 9 and 10 posited that the two dimensions of service quality, service delivery and campaign quality, would significantly reduce the selection risk. These hypotheses were not

supported. The respective β coefficients were weak in magnitude and statistically non-significant at $p < 0.05$. Upon checking the total effects, no significant total effects existed for these two paths. Thus, H7 and H8 were rejected.

Hypothesis 16, which stated that trustworthiness was positively related to lower risk, was supported with a β of 0.172 and a t-value of 2.053, $p < 0.025$.

The results confirmed that reputation (a signal of agency's ability), agency's rapport and trustworthiness (screening variables) are significant predictors of lower risk.

6.8.1.2 Hypotheses H2, H5, H11, H12 and H14: antecedents of trustworthiness

According to the research model, trustworthiness should have been predicted by reputation (H2), rapport (H5), service delivery (H11), campaign quality (H12) and fair compensation (H14). Upon testing the model, the following results were obtained.

Hypothesis 2, which posited that higher agency's reputation would increase agency trustworthiness, was rejected. Reputation did not significantly affect trustworthiness ($\beta = 0.017$, t-value 0.386, statistically non-significant at $p < 0.05$). A check of the total effects showed no significant total effects; thus, it was concluded that this path was statistically non-significant. This led to the rejection of H2.

Hypothesis 5, that higher agency's rapport increases agency's trustworthiness was accepted. Rapport affected trustworthiness in a statistically significant way ($\beta = 0.238$; t-value $= 3.282$, $p < 0.001$, one-tailed test). Therefore, this hypothesis was supported.

Hypotheses 11 and 12 related to the effect of service delivery (H11) and campaign quality (H12) on trustworthiness**.** H11 was not statistically significant (Table 6.26); however, inspection of the total effects indicated statistical significance for the impact of service delivery on trustworthiness ($\beta = 0.156$; t-value $= 1.66$, p $= 0.05$, one-tailed test). This means that when the indirect effect of service delivery on trustworthiness through campaign quality was added to the direct effect, the relationship became statistically significant. At this stage, this hypothesis was rejected. The potential mediation effect of campaign quality will be discussed in the next section.

In relation to campaign quality as a predictor of trustworthiness **(H12)**, the data analysis indicated that this was a statistically significant path. Indeed, the β was 0.183 and the t-value was 1.854, i.e. it was significant at p < 0.05. Hence, this hypothesis was supported.

Hypothesis 14, that agency compensation fairness is positively related to trustworthiness was supported. The beta coefficient, β, of this path was 0.395 and the t-value $= 3.933$, p < 0.001. This led to the acceptance of **H14**.

6.8.1.3 Hypotheses H3, H6, H7 and H15: exogenous variables that are antecedents to ESV

Four hypotheses tested if the independent variables in the model, i.e. reputation (H3), rapport (H6), service delivery (H7) and compensation fairness (H15), could predict ESV. Three of these four hypotheses were confirmed. Only service delivery was not a predictor to ESV. Reputation, rapport and fair compensation had statistically significant influences on ESV.

Thus, H3, H6 and H15 were supported, while H7 was rejected (Table 6.26). It can be concluded that reputation, rapport and compensation fairness significantly increased the expected service value of the agency proposition. Service delivery failed to affect expected service value directly.

6.8.1.4 Hypotheses H8, H17 and H18: endogenous variables posited to predict expected service value (ESV)

These three hypotheses posited that the endogenous variables campaign quality, trustworthiness and LPR are direct predictors of ESV. Two of these three hypotheses were confirmed through data analysis. The βs were 0.177 for the effect of trustworthiness on expected service value and 0.247 for the effect of LPR on ESV, with corresponding t-values of 2.943 ($p < 0.0025$), one–tailed test for the former and 1.681, $p <0.05$, one-tailed test for the latter. Thus, H17 and H18 were accepted. The third path, which linked Campaign Quality to ESV, had a negligible β and a negative sign; it was also statistically non-significant. Therefore, the respective hypothesis, H8, is rejected (Table 6.26).

6.8.1.5 H13: service delivery increases campaign quality

This hypothesis was supported by a very strong regression coefficient, $\beta = 0.511$, and a t-value of 6.680, $p < 0.001$. How the service was provided, i.e. how the agency acted during the briefing stage of the selection process and how well it addressed all brief requirements had a large and statistically significant effect on the quality of the advertising campaign the

agency prepared and presented as part of the selection process. Therefore, this hypothesis was accepted.

In summary, the data analysis confirmed 12 hypotheses about direct relationships among the research constructs. Six of the hypotheses were rejected. The mediating hypotheses will be examined next.

6.8.2 Mediation hypotheses testing

Nine hypotheses were proposed in the conceptual model's development stage positing that trustworthiness partially mediates the effects of reputation, rapport, service delivery and campaign quality on lower risk 19–H22). It was also hypothesised that trustworthiness mediates the effect of the same latent variables on the ultimate dependent variable, ESV (i.e. H23-H26). Finally, trustworthiness was posited to mediate the effect of compensation fairness on ESV (H27). Additionally, five hypotheses were proposed regarding the intervening effect of lower risk on four antecedents: reputation, rapport, service delivery and campaign quality and ESV (H28–H32). Three hypotheses were formed regarding the mediating effect of campaign quality on the relationship between service delivery and three endogenous variables: LPR, trustworthiness and ESV (H33–H35). Altogether, 17 mediation hypotheses were tested.

Mediation exists when the effect of one variable (i.e. an antecedent) on another (i.e. the dependent variable) is transmitted partially or completely by a third variable, i.e. the mediator. To establish mediation, the set of rules proposed by Barron & Kenny (1986) has been used (Preacher & Hayes, 2004). For ease of presentation, the mediation hypotheses are

discussed in the following manner. First, the effect of trustworthiness as a mediator is evaluated in section 6.10.1, followed by a presentation of the results for mediation tests for the effect of lower risk in section 6.10.2. Finally, the mediation test for the effect of campaign quality is discussed in section 6.10.3.

6.8.2.1 Test of mediation hypotheses H19–H27 about trustworthiness as a mediator

To determine if trustworthiness had mediation effects on the relationships between the predictor variables and the dependent variables, separate models corresponding to each of Barron & Kenny's (1986) three mediation conditions mentioned above were constructed and tested for each of the hypothesised mediation effects. Table 6.27 shows how the PLS tests were conducted to test the mediation hypotheses involving trustworthiness as a mediator.

The first condition for mediation is that the antecedents must have a statistically significant effect on the DVs (Barron & Kenny, 1986). Model 1 (Table 6.24) tested if statistically significant relationships existed between the following:

a) The antecedents reputation (H19), rapport (H20), service delivery (H21) and campaign quality (H22) and the dependent variable lower risk (LPR). Four PLC models were estimated respectively.

b) Similarly, three PLS models were estimated to check if the same antecedents, plus compensation fairness, had statistically significant effects on the main dependent variable, ESV (i.e. H23, H24, H25, H26 and H27).

c) Finally, hypotheses 28–32 were tested to check the role of LPR as a potential mediator in the model.

The first Barron & Kenny's (1986) condition for mediation was met by reputation, rapport and fair compensation but not by service delivery and campaign quality (Table 6.27). The *βs* for the latter are low and statistically non-significant. For these reasons, the four hypotheses, H21, H22, H25 and H26 were were rejected and service delivery and campaign quality were excluded from further analysis of mediation effects.

The second condition for mediation refers to establishing if the antecedents affect the mediator in a statistically significant way. The results of the PLS models that were run to check this are shown in Table 6.28 under 'Model 2: Antecedents to Mediator'. Only the statistically significant antecedents were retained from Model 1, i.e. reputation, rapport and fair compensation. Of these, reputation did not meet Barron et al. (1986) second requirement and failed to predict trustworthiness. Hypotheses H19 and H23 were consequently rejected and reputation was excluded from further analysis. The other two antecedents, rapport and fair compensation had large and statistically significant effects on trustworthiness; hence, they met Barron & Kenny's (1986) second condition for mediation (Table 6.25).

The next step was to conduct a check of the third mediation condition. This condition requires that the mediator be a significant predictor of the DV. Two DVs were examined in this case: LPR and ESV. Table 6.26 illustrates the results of the tests for "*Model 3: Mediator to Outcome Variables*". The obtained values from the respective PLS models indicated that the β-coefficients of the effect of trustworthiness on LPR and ESV were high in magnitude

and statistically significant at p < 0.001. This meant Barron & Kenny's (1986) third condition was also met.

It can be concluded that that trustworthiness mediated the effect of rapport and fair compensation on LPR and ESV, respectively. The next step of the analysis was to check if the mediated effect was statistically significant so that the hypotheses could be confirmed or rejected accordingly.

The mediation tests revealed a few things about the potential mediation relationships. First, neither service delivery nor campaign quality had statistically significant direct paths to LPR or ESV. This essentially meant Barron & Kenny's (1986) first mediation condition was not met; therefore, mediation was precluded. For this reason, no further tests were conducted for these two constructs. Similarly, reputation's direct path to trustworthiness (corresponding to Barron & Kenny's second condition) was very small

in magnitude and was statistically non-significant, therefore trustworthiness could not possibly mediate the effect of reputation on LPR or ESV. Thus, only rapport and Fair Compensation could be tested in the fourth causal model's step. These two constructs fully satisfied Barron & Kenny's (1986) four conditions for mediation. The direct path, emanating from rapport and leading to LPR and ESV decreased when the mediator (i.e. trustworthiness) was included in the model (Table 6.27). Likewise, the direct path from Fair Compensation to ESV diminished in magnitude when the mediator was included in the model. Following Barron & Kenny's causal step model of checking for mediation, one could conclude that trustworthiness was likely to mediate the effect of rapport on LPR and ESV and of fair compensation on ESV.

However, to formally prove these three mediation effects, the Sobel test was conducted (Table 6.27). The Sobel test confirmed that trustworthiness mediated the effect of rapport on lower risk. This conclusion was supported by a statistically significant z statistic ($z = 2.15$, p $= 0.031 < 0.05$). However, trustworthiness failed to mediate the effect of rapport on ESV ($z = 1.57$, $p = 0.11 > 0.05$) and of Fair Compensation on ESV ($z = 1.65$, $p = 0.09 > 0.05$); hence, these two hypotheses were rejected.

6.8.2.2 Mediation test for H29–H33 regarding the mediating role of lower risk

The tests of the five hypotheses in which LPR was posited to play the role of mediator between the hypothesised antecedents and ESV are discussed here, and the results are shown in Table 6.29. As can be seen, all three conditions for mediation were met for three of the five hypotheses under investigation (H28, H29, and H32). Lower risk did not mediate the effect of service delivery and campaign quality; hence, these hypotheses were rejected.

The next step was to check whether the mediator significantly transmitted the effect of the antecedents to the outcome variables. The results of this test are shown in Table 6.28.

All the mediating effects were statistically significant because their respective z statistics exceeded the required value of 1.96. The z statistic for the mediation effect of LPR on the relationship between trustworthiness and ESV (1.917) was below this cut off point (1.96) but was very close to it, so this mediation was considered significant as well.

6.8.2.3 Mediation test for H34: campaign quality mediates the effect of service delivery on trustworthiness

The test of campaign quality as a mediator of the effect of service delivery on trustworthiness (Table 6.30) showed that when campaign quality was not in the model, the path linking service Delivery to trustworthiness was statistically significant (i.e. $\beta = 0.136$, t-value = 1.685). However, once campaign quality was included, this link shrank (i.e. $\beta = 0.062$) and became statistically non-significant (t-value = 0.917). This indicated the existence of complete mediation (Barron & Kenny, 1986); therefore, this hypothesis was supported. Consequently, H11, which stated that service delivery increased trustworthiness and was initially rejected based on the direct effects, was reviewed in light of the mediation tests and was accepted. Table 6.32 in the Appendix contains the final results from the test of the hypotheses related to the direct effects in the model.

6.9 Summary

This chapter presented consecutive steps in the data analysis conducted using a PLS PM approach to model testing. This included the procedures undertaken to prepare the data for analysis and the different stages of processing the model. Based on the results of a comprehensive range of outer and inner model tests, the chapter demonstrated the validity of the research model. The testing of the research hypotheses was presented in two sections in the chapter discussing direct effect hypotheses testing and testing for indirect effects, or mediation hypotheses testing. The overall conclusion was that the proposed model was able

to predict the dependent variable, expected service value, and thus could predict the choice of an advertising agency. The next chapter provides a detailed discussion of the data analysis results and draws conclusions from the entire research project.

CHAPTER 7: DISCUSSION AND IMPLICATIONS

7.1 Introduction

The main purpose of this chapter is to discuss the results of the data analysis presented in Chapter Six, to draw the conclusions of the entire study and to outline the contributions of the dissertation to marketing knowledge. The chapter includes the following sections: discussion of the empirical results and drawing conclusions from the study; contributions to marketing knowledge; implications of the study for marketing practice; study limitations and directions for future research.

7.2 Discussion of empirical results

In order to develop a conceptual model of factors that predict the choice of a new advertising agency, this study integrated the findings from previous research on advertising agency selection, with the predictions of the Economics of Information, Signalling theories, and the results from the exploratory study conducted for the purposes of this research. To reiterate, the research objective of the study was to:

Identify a set of factors which can predict the choice of a new advertising agency

There were four main research questions associated with this research objective:

1. Do advertising agency *signals* of quality impact on the *selection risk* and the *expected value* of agency services?

2. Does *screening* for essential agency characteristics impact on the *selection risk* and the *expected value* of agency services?

3. How do purchase-related factors impact on the *expected value* of agency services?

4. Do *Agency trustworthiness* and *selection risk* mediate the effects of the *signals* and *the screening variables* on the *dependent variable/s*?

The discussion of the results is organised around the first three research questions and is presented next. The outcomes related to research question 4 are best addressed together with the discussion of the antecedent variables that the mediating constructs were hypothesised to affect. Hence the results from the mediation tests are integrated with the discussion of the first three research questions. A brief summary on the mediation effects is offered separately at the end of the discussion.

A diagram, depicting the final research model is presented in Figure 7.1 in the Appendix.

The contributions of each predictor variable to the variance of the dependent variables are shown in Table 7.2.

Tables 7.2 Relative contributions of the predictors to the variance of the Endogenous Variables

7.2.1 Research question 1: Do advertising agency signals of quality impact on the selection risk and expected value of agency services?

Consistent with Signalling theory, the study posited that signals of an advertising agency quality will increase the expected value of agency services. Based on the literature review (Chapter Two), the reputation of an agency was identified as an important signal of quality and ability to deliver consistently good results. Consequently, reputation was posited to impact on the selection decision directly, in three ways:

- by exerting a positive effect on the selection risk reduction (H1);
- by increasing the agency trustworthiness (H2);
- by increasing expected service value of agency services (H3), which as discussed in Chapter 4, was a proxy for choice of an agency.

Apart from the direct effects on the dependent variables (DVs), lower selection risk (LR) and expected service value (ESV), reputation was hypothesised to also affect the DVs indirectly through the mediating effects of trustworthiness on: a) the ESV (H19), and b) on LR (H23), as well as via the mediating effect of LR on ESV (H28).

The study found evidence that reputation affects the two dependent variables in the model, LR and ESV, in the expected direction, in a statistically significant way. That is, good reputation is an agency signal which lowers the selection risk and increases the ESV of agency future services, and consequently increases the agency probability of being chosen.

As one of the five statistically significant antecedents of ESV in the model, reputation made a direct contribution to the variance in ESV of 6.5%. Reputation had also a statistically significant positive effect on lower risk and explained a sizeable 31% in the variance of this

construct, the second greatest contribution to the variance of lower risk after agency rapport, which contributed 36%.

These results are in line with the theory of Information Economics, as discussed in Chapter Two, hence, the present study corroborates previous research, which concluded that when information about quality is imperfectly observable before and even after purchase, good corporate reputation of suppliers is an effective signal of quality and reliability (Dolphin, 2004; Herbig et al., 1995; Weigelt et al., 1986). Reputation creates buyer's confidence that the supplier is likely to fulfil its promises about delivering certain level of service (Herbig et al., 1995), an inference that lowers buyer's quality uncertainty and adverse selection risk and increases the expected value of agency future service and, consequently, the probability that the supplier will be selected and hired.

As for the indirect effects of reputation on the DVs, trustworthiness did not act as a mediator in respect to reputation (H19, H23). However, there was a statistically significant indirect effect of reputation on ESV, carried via LR (H28). Thus, this study proves that LR partially mediates the effect of reputation on the choice of an advertising agency.

In brief, the study indicates that reputation is effective in increasing service value directly and indirectly, by lowering the selection risk, which in turn increases the expected value of the service. This finding is consistent with prior literature on the effect of reputation on reducing the adverse selection risk (e.g. Bearden et al., 1982) and on increasing expected utility (Hansen et al., 2008), a positive correlate of value. It is also in line with Roberts et al. (2002), who established that corporate reputation decreases risk in bilateral corporate business relationships. In addition, these results lead to the conclusion that, consistent with

the Information Economics theory and the signalling paradigm, agency investments in reputation-building signals lower the selection risk, which increases the ESV. It can be concluded that the corporate reputation of an agency has a key role to play in the selection decision-making for a new agency. Advertising agencies of higher reputation are more likely to be able to reduce buyer selection risk than agencies of lower reputation, or new agencies that haven't built their reputation yet. Consequently, agencies which have invested in building good reputation have higher chances to be selected.

While reputation lowered the selection risk and increased the ESV of the advertising agency services as hypothesised, the lack of association between reputation and trustworthiness (H2) was unexpected. It can be interpreted to mean that even if the agency has good reputation, this is not sufficient to make the advertiser see it as trustworthy. That is, reputation does not automatically generate trustworthiness. Given the credence properties of advertising services, and the hugely customised character of advertising, even very reputable agencies are sometimes unable to deliver highly successful advertising outcomes, as discussed in Chapter Two. This could explain the advertiser's healthy scepticism toward any advertising agency, before being able to obtain some hard evidence of agency ability to produce positive results for the client. Such an outcome can only become evident in a post-purchase situation, though.

One can draw a parallel between this result and the findings reported by LaBahn et al. (1997), a study which examines agency-client relationships from a post-purchase perspective. The authors concluded that only proven advertising results can increase clients' trust (a positive correlate of trustworthiness) in their agencies. "We will only trust our agency if it delivers results" (LaBahn et al., 1997, p.504). In a somewhat similar fashion, the present research indicates, that while reputation is not a statistically significant predictor of

trustworthiness, another factor, campaign quality builds perceptions of trustworthiness, as will be discussed in more details soon. This can be interpreted to mean that sampling the agency service quality via the pitch campaign is more effective in building perceptions of trustworthiness than the agency reputation. Indeed, examining the results of this study, in relation to the contribution of the service quality dimensions to trustworthiness shows that campaign quality (the technical component of service quality) has statistically significant effect on trustworthiness (Beta = 0.183, t = 1.854, p <0.05, one-tail test). Service delivery, the functional dimension of SQ, also has positive effect on trustworthiness, albeit completely mediated by campaign quality, as discussed in a subsequent section of this chapter.

Thus, in respect to the first research question, it can be concluded that reputation as a signal of agency ability, reliability and consistency plays an important role in the selection process. It is a valuable source of information that lowers the selection risk and increases the ESV of an agency services, and directly contributes to agency choice.

7.2.2 Research question 2: Does screening for essential agency characteristics impact on the selection risk and the expected value of agency services?

Two exogenous and two endogenous constructs in the conceptual model were hypothesised to serve as screening variables: rapport and service delivery (exogenous), and campaign quality and trustworthiness (endogenous).

7.2.2.1 Rapport

Rapport was posited to be a screening variable used by advertisers to understand if the applicant agencies had good skills in relationship building. Ability to develop good working relationships with the hired agency has been shown by prior research to be instrumental in achieving successful advertising outcomes (Chapter 2).

All three hypotheses about the effect of rapport (H4-6) were supported by the data analysis. This study found empirical evidence that rapport lowers the advertiser selection risk (H4), and increases both trustworthiness (H5) and expected value of agency services (H6). The direct contribution of rapport to the variance of LR was over 36%, while it contributed 24% to the variance of trustworthiness and 8% to the variance of expected service value.

These findings are in complete agreement with a number of prior studies that examine the effect of interpersonal compatibility in client-agency relationships, and are also in line with the body of research on advertising agency selection factors, as discussed in detail in Chapter Two.

Considering the broader advertising agency-client relations literature, these findings corroborate the results obtained by LaBahn (1996), regarding the effect of advertising agency rapport on the client's trust in an existing agency-client relationship. The present study discovered a similar effect, but in the pre-relationship stage of agency-client relations, namely that the perceived by the organisational buyer agency rapport impacts on the decision-making for a new agency by increasing agency trustworthiness.

These results are consistent with previous research on the importance and consequences of rapport, and/or other correlated constructs of relational nature (as discussed in Chapter 4,

section 4.3), outside the advertising agency-client relations. For example, Day et al. (2003) concluded that in the purchase of architectural and engineering services, another professional business service, clients weigh the "chemistry" factor quite heavily. They also found evidence of a positive relationship between interpersonal chemistry and service supplier trustworthiness. It was discussed in Chapter 4 that "interpersonal chemistry" and rapport are very close in meaning constructs, with overlapping nomological nets; hence the results of the present study corroborate also the findings of Day et al. (2003).

As far as the effect of rapport on lower risk is concerned, no prior empirical research has been found in the focal or related bodies of literature that has tested this linkage, so comparisons are difficult to make. It appears that the present study is the first one to establish statistically significant effect of rapport on LR in the selection of advertising services, and more broadly, in the field of supplier selection in PBS.

When it comes to the effect of rapport on expected service value, no prior research has tested this proposition, either. This study delivers evidence that rapport is a valuable characteristic of an advertising agency, which increases the agency chances to be selected. Everything else being equal, agencies demonstrating higher level of rapport have better chances to be chosen by advertisers.

The results from testing the hypotheses about rapport reinforce the idea that advertisers perceive agencies with better developed interpersonal skills as less risky and offering more value. Indeed, the implications of developing good working relationships in PS are far-reaching, due to the interactive and interdependent character of these services (Chapter 2). Being co-produced, they involve extended communication and interaction between the

service supplier and the client (Hausman, 2003), hence the quality of the relationships acquires central importance. "While interaction between buyers and sellers may be present in other B2B encounters, it forms the fundamental exchange mechanism in professional services" (Hausman, 2003, p.228). Hence the significance of relationship quality and interpersonal compatibility, of which rapport is a cue. Thus screening for rapport during the selection process becomes essential.

The present research has established the vital role of screening for agency rapport in building advertiser perceptions of agency trustworthiness, lowering the selection risk and increasing expected service value in transactions with asymmetric information. As the literature suggests (e.g. Dell, 1991) rapport, being an early indication of interpersonal compatibility between the people in a supplier's and a buyer's organisation, is the best predictor of long-term relationships. Therefore, the present research treats an agency rapport as an essential prerequisite to building good and long working relationship (Dowling, 1994) with an advertising agency. The data analysis supports this hypothesis by proving empirical evidence of the consequences of rapport for reduction of the adverse selection risk, building trustworthiness, and increasing the ESV of agency future services.

In addition to the direct effects of rapport, the study also posited that rapport will exert indirect effects on ESV, via the mediating effect of trustworthiness and via the mediating effect of lower risk. Rapport was also hypothesised to have indirect effect on LR through the mediating effect of trustworthiness. Trustworthiness did indeed partially mediate the effect of rapport on risk reduction (H20), but did not do so for the effect of rapport on ESV (H24). At the same time the data analysis indicated that risk reduction partially mediates the effect of rapport on ESV (H30).

The mediating effects sheds more light on *how* exactly rapport builds the expected value of agency services. This happens by means of rapport's direct impact on value on one hand. Apart from the direct effect, an additional influence of rapport on ESV is carried via the mediating role of lower risk.

Rapport also impacted on LR in a direct way (by being the largest contributor to LR in the model) and indirectly, by the effect of trustworthiness on LR (H20). These findings indicate how powerful screening for rapport is in the context of advertising agency selection.

7.2.2.2 Service quality: service delivery and campaign quality

The demonstrated by an agency during the selection process service quality was conceptualised as a two-dimensional construct and represented in the model through its two dimensions: service delivery (SD), the functional dimension (Gronroos, 1984) and campaign quality (CQ), the technical dimension (Gronroos, 1984; section 4.3.3). Based on the results in the in-depth interviews (Chapter 3), SD was hypothesised to exert a positive effect on CQ. Apart from this, each of the two dimensions of service quality was hypothesised to affect positively trustworthiness (H11 & H12) and the two DVs, LR (H9, H10, respectively) and ESV (H7 and H8, respectively).

The data analysis indicated that SD is positively associated with CQ and accounts for 26% in the variance of CQ, i.e. the two dimensions of SQ of advertising services are causally related, with service delivery (conceptualised as the response of the agency to the creative brief), explaining more than a quarter in the variance of CQ (the quality of the proposed by the

agency creative campaign). As suggested by the results of the exploratory research, the better the service delivery, the higher the quality of the pitch campaign.

The results showed also that of the two dimensions of SQ, only campaign quality had a statistically significant direct positive relationship with trustworthiness (β = .183; t = 1.854; p < 0.05), contributing 12% to the variance of trustworthiness. The effect of SD on trustworthiness was weak and statistically non-significant. However, further analysis revealed that, as expected (H35), campaign quality mediated the effect of SD on trustworthiness, although the mediation was not partial, as proposed in H35, but complete, i.e. trustworthiness fully mediated this effect. This is to say that the effect of SD was transferred to trustworthiness entirely by the mediator CQ, a finding providing an insight into *how* exactly advertising service quality affects agency trustworthiness during the selection process. The conclusion that can be made is that the technical dimension of SQ, the quality of the proposed by the agency creative advertising campaign, had a paramount effect on the advertiser and completely accounted for the influence of service delivery on shaping the advertiser perceptions of agency trustworthiness. Advertiser's first-hand experience with the agency campaign during the pitching seems to provide direct evidence of agency ability to offer quality service, and is more influential in building trustworthiness, than agency skills in service delivery, thus completely mediating the effect of SD. This finding can explain why the competitive pitch, that allows the client to observe directly the agency ability to design creative campaigns (i.e. to test-drive an agency), plays such an important role in the selection process. This is probably the reason the pitch continues to be an enduring part of the selection process, despite the fact that pitching attracts a lot of criticism by agencies and other industry players (e.g. Green, 2015).

None of the SQ dimensions influenced LR, or ESV. The beta – coefficients for these linkages were very small. The paths *campaign quality* → *ESV* and *campaign quality* → LR were negative (albeit of negligible size), contrary to the hypotheses. Even though service quality builds trustworthiness, as explained above, it doesn't seem to lower the adverse selection risk, or to increase ESV, results that are unexpected. A possible explanation for the lack of effect on LR could stem from the fact that in an attempt to win the client's account, agencies often assemble teams of their best employees to pitch for the new business (Davies & Prince, 2006). Yet, once the agency is hired, different staff, often junior and less experienced, is assigned to the client's account (Davies et al., 2006). As a result, the buyer selection risk during the selection process may remain high, despite the good quality of response to the brief and the pitch campaign. An alternative explanation of this phenomenon can be found in Davies et al. (2006), who suggested that the pitch campaign might not decrease the client risk because "the pitching process may not serve as a true indicator of creative potential. Strategic advertising proposals are not usually fully developed or presented in the required executional finish, nor tested under true market conditions (Davis et al., 2006, p. 2).

Buyer uncertainty about which agency staff will be assigned to the account, should the agency be hired, may also explain the inability of SQ to exert a statistically significant positive effect on ESV. Even a good agency performance in the pitch is not perceived as valuable, because of the probability that once the agency is contracted, less capable agency staff may be appointed to the advertiser's account.

The implication from the above discussion is that agencies may need to consider providing the advertiser with some reassurance, that if the agency is hired, the same people participating

in the pitch will be assigned to its account. This may lower the advertiser's selection risk and may increase the value of the agency future services.

The results associated with the effects of the two dimensions of SQ are comparable to another study examining the effect of SQ on Trust in existing advertising agency-client's relationships, namely Gounaris et al. (2002), who discovered that not all dimensions of advertising SQ have statistically significant effect on advertiser's trust (a positive correlate of trustworthiness) in the agency. Likewise, LaBahn & Kohli (1997) modelled advertising SQ as a dichotomous construct with dimensions: *creative quality* and *diligent implementation.* They posited that SQ would increase client's commitment to and trust in the agency. However, due to lack of discriminant validity between the two dimensions of SQ in their model, they had to transform the construct into a unidimensional one. As such it had a direct positive impact on client's Trust in the agency.

7.2.2.3 Trustworthiness

Screening for service supplier trustworthiness is important in the purchase of credence services, because, they are bought "on faith", at least to some degree, as discussed in Chapter Four. For this reason it was posited that the higher the agency trustworthiness, the lower the selection risk (H16) and the higher the expected service value of the agency future services (H17). The results fully supported these two hypotheses and thus provided evidence of the power of building trustworthiness in the *pre-relationship stage* of client-agency relations.

These findings are consistent with Dowling (1994) who factor analysed a long list of advertising agency selection criteria and extracted four factors underlying the selection

decision, one of which was agency *trustworthiness.* However, in general, only few other empirical studies have actually examined the effect of trustworthiness in B2B marketing, despite its importance in pre-purchase relationships, when a new supplier is being selected (as discussed in Chapter Four). Thus, this study makes a contribution toward better understanding of the role of a supplier trustworthiness as an antecedent to adverse selection risk (predicts 24% in the variance of risk reduction in this study) and to expected value (predicts 17% of the variance of ESV).

Trustworthiness also played the role of a mediator between the screening variables and the signal on one and the DVs. As such it partially mediated the effect of rapport on LR, as mentioned in section 7.2.3.1, a further evidence of the power that this construct exerts during the selection process for a new agency.

In brief, these results highlight the essential role of supplier trustworthiness in information asymmetric purchases. Since this construct has barely been researched in B2B marketing before, this study points to the potential of the construct to explain pre-purchase relationships in such markets and warrants its further examination in pre-purchase decision-making concerning credence goods.

7.2.3 Research question 3: How do other, purchase-related factors impact on expected service value?

Two purchase-related factors were considered in this study: compensation fairness and selection risk reduction (LR)

7.2.3.1 Compensation fairness

As hypothesised, this construct turned out to be a statistically significant predictor to both trustworthiness (H14) and ESV (H15). In fact, compensation fairness contributed a major part in the variance of these constructs. It accounted for 46% in the variance of ESV and explained 51% in the variance of trustworthiness, and in both cases this was the largest contribution made by a single antecedent. These results highlight the role of compensation fairness in the decision-making about the choice of a new advertising agency, and give rise to important implications for marketing of advertising services, as will be discussed in section 7.4 of this chapter. Yet, very little is known about this construct, because it has not been empirically researched in the context of the advertising agency selection. Hence, there is a need for scholars of advertising agency selection to examine compensation fairness more closely. This study paves the way for further investigation of the drivers of compensation fairness in PBS marketing.

7.2.3.2 Lower selection risk

The model posited that LR would affect ESV directly (H18). The results confirmed the viability of this hypothesis. LR was a statistically significant predictor of ESV ($\beta = 0.247$, t=3.045, p<0.0025). This indicates that when the adverse selection risk declines, the value of the agency future services increases, just as the theory of Economics of Information (EOI) predicts (Chapter 2). LR accounted for a sizeable 21% in the variance of ESV, and was the second in importance ESV antecedent, after compensation fairness.

These results provide evidence of the key role of risk reduction in the purchase of credence services, such as advertising. Combined with the findings that reputation and rapport lower the selection risk, they shape an argument about the importance of LR in the sequence of effects maximising expected value of agency services. They are completely consistent with the theories (EOI and Signalling theory) and with previous research (e.g. Hill et al., 2003) which concluded that advertising services and other applied creative PBS are exceptionally high on purchase risk, hence reducing this risk will be likely to increase the expected value of the service.

7.2.4 Summary about the mediation effects

The results of the mediation hypotheses, associated with Research Question 4 were already discussed in conjunction with the related constructs. To conclude briefly, trustworthiness mediated the effect of rapport on lower risk. This highlights the crucial role of cues of interpersonal compatibility, such a rapport, which lowered the advertiser's selection risk not only directly, but also indirectly, by building agency trustworthiness, which in turn transferred part of the effect of rapport on LR.

LR, on the other hand, mediated the effects of reputation, rapport and trustworthiness on expected service value. These results suggest that a lot of the expected value of advertising services is built by the influence that reputation, rapport and trustworthiness have on reducing the adverse selection risk in purchases affected by information asymmetry.

Both constructs, trustworthiness and LR, are largely unexplored in the context of advertising agency selection/credence services supplier selection; hence there is an opportunity for future

research to incorporate these constructs in models of supplier selection in information asymmetric B2B markets.

7.2.5 Conclusion about the research objective

The research objective of the present study was to: ***Identify a set of factors which can predict the choice of a new advertising agency***

The data analysis revealed that, indeed all of the hypothesised constructs contribute in certain ways to the final choice of a new advertising agency. The signal reputation, along with the screening variables, rapport and trustworthiness predicted almost 30% in the variance of LR. In turn, risk reduction (LR), together with reputation, rapport, trustworthiness and compensation fairness predicted 61%, of the variance in ESV. That is, the expected value of an agency services and respectively, the probability of an agency being selected, is maximised by perceptions of agency compensation fairness, trustworthiness, rapport and reputation and by the advertiser selection risk reduction. Except for service quality, the hypothesised predictors of ESV do, indeed increase expected value of advertising services. Thus, it can be concluded that the model exhibits good potential to predict the choice of a new agency.

In brief, the results confirm the viability of the conceptual framework. They also provide empirical evidence of the appropriateness of using the screening and signalling perspective to study supplier selection in markets with imperfect information is viable.

7.3 Contributions of the study to marketing knowledge

7.3.1 The first study to model advertising agency choice

First of all, to the best knowledge of the researcher, this is the first study that has attempted to model the choice of an advertising agency. Extensive search of the major marketing and management databases could not locate any other empirical or conceptual work investigating the predictors of choice of an advertising agency.

From a methodology point of view, predominantly descriptive research methods have been utilised in this field of marketing knowledge. The present study introduces new to the field approach to the investigation of agency selection, in the shape of Structural equation modelling (SEM) to predict the choice of a new advertising agency. SEM is nowadays wide-spread in many fields of scientific enquiry, including marketing and management. As Hair et al. (2012, p. 414) note: "Structural equation modelling (SEM) has become a quasi-standard in marketing research …as it allows authors to test complete theories and concepts". Hence, introducing SEM in the field of agency selection is a progressive move.

A tangible outcome of the use of SEM in this study is the prediction of a choice of a new advertising agency, but also the estimation of the predictors' individual contributions to choice. In addition, SEM allowed the estimation of the multiple interdependent relationships among the predictors in the model, which helped understand the complex routes of their indirect influences on the DVs. Such insight cannot be derived from the descriptive

approaches to studying agency selection used by most of the previous research. It follows that the use of SEM makes a valuable methodological contribution to this field of marketing knowledge.

7.3.2 Support for the viability of the theories to guide the research

Secondly, this is the first study to demonstrate the viability of applying the theories of EOI and Signalling to the study of advertising services' supplier selection. While the information economics and signalling perspectives have been used in other industries and markets, as outlined in Chapter Two, to my knowledge they have not been applied to the selection of an advertising agency, and in general, to the selection of a supplier in information asymmetric B2B services markets. Agency theory, which is consistent (Morris, 1987) with Signalling theory, and examines relationships between a Principal (e.g. a buyer) and an Agent (e.g. a supplier) mainly in post-contractual context, was used by some authors in the area of agency-client relations (e.g. Waller, 2004; Helgesen, 1992; Davies & Prince, 2010), but not in relation to agency-selection. Similarly, Sharma (1997) analysed the use of professionals by companies, a type of business exchange affected by asymmetry of knowledge between the consultant and the client organisation. He used Agency theory to explain the nature of the relationships involved in such exchanges, however, again, in post-purchase context.

This thesis extends the validity of the EOI and Signalling theory in yet another field, the advertising services industry and shows that these theories represent a very fruitful basis for empirical investigation of transactions with high involvement credence services.

7.3.3 Parsimonious model

Thirdly, the study shows that a small number of selection factors, representing reputational (reputation), relational (rapport), service quality (service delivery and campaign quality) and purchase-related factors (compensation fairness and selection risk reduction) can explain 61 % of the variance in the dependent variable, ESV of agency services, and thus to predict choice. Given the complexity of B2B buying behaviour, which is subjected to a multitude of environmental, individual, and other influences (Johnson et al., 1996), as outlined in section 2.2 of Chapter Two, the ability of only a handful of selection factors to predict more than 60% of the final decision, appears to be a good result. Linking this outcome to the previous paragraph, one may conclude that the choice of an appropriate theoretical framework for the analysis has contributed to a selection of very parsimonious set of relevant factors which were sufficient to predict the choice of a new advertising agency. This lays the foundation for subsequent research using the same constructs and the relationships among them in other information asymmetric markets.

7.3.4 Expected service value

The next contribution of the research relates to the use of expected service value as the DV of the model. It appears to be the first attempt to empirically investigate perceived/expected value in the context of advertising services. Previous research in the related broader field of PBS has examined value of engineering consulting services (e.g. Lapierre, 1997; Lapierre et al., 1999), management consulting services (Patterson et al., 1997; Whittaker, et al., 2007) and financial services (Kumar et al., 2004), and in the field of B2B services in general, freight

services (Molinary, Abratt & Dion, 2008) and B2B electrical utility services (Desarbo et al., 2001). However, a thorough search of the marketing and management electronic databases could not locate any study discussing or modelling the construct *expected value of advertising services*. Yet, research indicates that it is really important for marketers of any sort of goods and services to understand the drivers of value, as perceived by their customers, because choice and purchase decisions are dictated by perceived value (Zeithaml, 1988). The present study brings evidence that this construct can successfully be used to study those key characteristics of an advertising agency, that contribute the most to advertiser's perceptions of services value. The research identified five constructs that are statistically significant antecedents to value, compensation fairness, risk reduction, trustworthiness, rapport and reputation. While the above-mentioned studies have shown price fairness, trustworthiness, reputation and interpersonal factors, similar to rapport to be antecedents to value, none of them has included or reported risk-related factors as predictors of value. Hence, the present study extends the scope of empirically tested predictors of perceived value of PBS, by demonstrating empirical support for inclusion of risk reduction in this set.

7.3.5 Theoretical linkages

Another empirical contribution is related to the proposed and tested by this research new theoretical linkages among the research constructs, which, to the best knowledge of the researcher have not been tested in marketing before, such as:

- rapport → (+) → value;
- rapport → (+) → trustworthiness;
- rapport → (+) → lower risk;

- service delivery → (+) → campaign quality;

- campaign quality → (+) → trustworthiness.

Further, a couple of theoretical linkages proposed and tested by the study, offer empirical support for causal relationships that have been proposed but not tested before. For example, Xia et al. (2004) proposed a model depicting the formation of perception of price fairness, in which price fairness was posited to increase value, however they didn't empirically test the model. The present study tested similar proposition and found very strong support for it.

Other linkages in the model offer support for relationships between constructs tested by only a single study before, hence this research confirms the respective theoretical linkages and thus strengthens their validity. Examples of such linkages include:

- reputation → (+) → risk (Bearden et al., 1982, in the field of sales of consumer goods)

- reputation → (+) → value (Hansen et al., 2008)

- compensation fairness → (+) → trustworthiness (LaBahn, 1996: tested and found evidence that fair compensation increases trust, a closely related to trustworthiness construct).

7.3.6 Mediation effects

Finally, the study also contributed to marketing knowledge by proposing and testing a couple of mediation effects. An empirical support was found for the indirect effect of rapport on ESV by means of the mediating role of trustworthiness, which provides evidence of the

process in which rapport impacts on ESV in an indirect way (beyond the direct effect). The study also found that lower risk mediated the influence of reputation, rapport and trustworthiness on ESV, a finding which reveals the strong effect of LR in the model. Finally, campaign quality fully mediated the effect of service delivery on trustworthiness, indicating that the pitch campaign quality dominates the advertiser's perceptions of advertising service quality**.**

In conclusion, this section outlined a number of theoretical and empirical contributions the study makes to marketing knowledge.

7.4 Implications of the study for marketing of advertising services

This section outlines several ways in which this research can be useful for managers of advertising agencies in their efforts to develop more effective marketing strategies for winning new accounts.

This study was conducted from the perspective of the advertisers and is therefore, valuable to advertising agencies, because it offers an insight into what advertisers are looking for in a new agency, how they are using agency signals of quality and what are the key agency characteristics that advertisers are keen to detect in an agency when they undertake their screening. The study provides an opportunity for agencies to take a reality check, i.e. to put themselves in their customer's shoes and thus, to understand better what do these customers value most in an advertising agency they wish to hire.

7.4.1 The importance of selection risk reduction

In their effort to win new accounts, advertising agencies need to consider first and foremost, the difficulties advertisers face and the risks they perceive in making a choice of a supplier of high importance, high cost intangibles, in conditions of information asymmetry. They need to understand very well the credence nature of the service, and to recognise the high degree of buyer's risk involved in selecting agencies. As discussed in Chapter Four, the agency selection process structure and length can be thought of as a carefully orchestrated by clients risk reduction exercise of length and complexity hardly seen in any other market for PBS, or any other services. Agencies need to realise the supreme importance of risk reduction associated with such purchases, in which the advertisers invests "significant elements of time, money, manpower and prestige" (Mitchell, 1998, p. 461). Thus, finding ways to lower the advertiser risk will facilitate the choice decision.

Understanding the role of signals in reducing the information asymmetry in the market for advertising services may help agencies consider how to produce and send effective signals, that can lower the information asymmetry and the related selection risk, associated with the hiring of a new agency. Although any meaningful signal the agency sends will matter, this research demonstrates the signalling role of reputation in decreasing the selection risk, and consequently in increasing the probability of choice. Agency reputation was shown to exert direct, but also indirect effect on expected value of the advertising agency service, via the mediating role of lower risk. The implication for management of agencies is clear: invest in building strong corporate reputation, by delivering consistent quality and demonstrating integrity in dealing with business partners, aim to acquire high status in the industry and to win the respect of customers, so that a positive word-of-mouth is spread about the agency. Winning industry awards, gaining positive recommendations from satisfied and delighted consumers and reflecting the agency professional and business achievements in carefully

managed Public Relations campaigns will also be useful. Once good reputation is built and/or maintained, it will start working for its owner in a rather powerful way, thus paying off nicely the investment made in building and maintaining it. This is especially important for new and young advertising agencies, which are yet to build their reputation.

7.4.2 The importance of interpersonal skills

The next implication for managers relates to the influence of agency staff interpersonal skills, or the people factor (Cagley et al., 1984) in winning a new account. In the context of this study rapport building emerged as an influential agency characteristic that advertisers screen for in their search for a new agency. The results indicate that agency's skills in rapport building, at a very early stage of a relationship with a potential client, is very effective in reducing the selection risk, while simultaneously increasing agency trustworthiness and the value of the agency future service. That is, agency rapport impacts on the final choice directly and indirectly through its complex network of additional effects to key predictors of choice, such as trustworthiness and risk reduction.

Although the need to demonstrate skills in the area of interpersonal communications and relationship-building is hardly new for agencies, what is new here is the realisation that rapport is an important cue for interpersonal "chemistry", and is thus one of the advertiser's top priority requirements. Hence, it should be seen as a "must-have" characteristic of any agency. The implication for agency managers is to work on perfecting the rapport building skills of their staff. In doing this managers should be aware that this study confirmed that this construct is associated with instilling likeability and engaging in a pleasant and friendly interaction with the advertiser's people (LaBahn, 1996), in view of laying the foundations of

productive future working relationships. In addition, a definition of rapport by Graham (www. evancarmichael.com) offers further guidance as to what agency's staff should strive for. His view is that "being in rapport is the ability to enter someone else's model of the world and let them know that we truly understand that model". On this basis, it can be concluded that agency staff directly involved in the relationships with clients should be trained, encouraged and motivated to develop and perfect these skills.

7.4.3 The role of compensation fairness

Agency management needs to realise that reducing advertiser's selection risk is not only an important outcome of the pre-selection search for information on the agency. Lower risk also influences the final choice of an agency by increasing the expected value of agency future services. Along with risk reduction, value was shown to be positively correlated with advertiser perceptions of agency compensation fairness. This construct exerted the most influence on value.

The implication of this for agencies is that they need to be proactive (Xia, et al., 2004) and to manage advertiser perceptions of compensation fairness by providing more information on cost-structure. One way to do this is to explain, during the interviews with advertisers conducted during the selection process, the rationale for the compensation, and to convince them that it fairly reflects the agency underlying cost structure. For example, if the agency employs top artistic directors and other prominent creative people, who command high pay, these facts need to be stressed in order to justify potentially higher commission that the agency may require.

Given the huge impact of compensation fairness on the selection decision, agencies demanding too high compensation may need to rethink their compensation structure in a way that ensures there are no excessive disparities between cost and price, if they really want to win a particular account. They need to stress during the negotiations with the potential clients, that the demanded by the agency compensation is fair, because it reflects the agency underlying cost, plus a reasonable, but not excessive profit margin. This is likely to communicate to advertisers that the agency makes an effort to adhere to a fair pricing of its services, an important consideration in the advertising industry today, when marketing departments are increasingly under pressure to demonstrate accountability for the advertising dollars they spend (Binet & Field, 2009). Alternatively, if the agency policy is to demand premium prices for its services, due to historical record of successful campaigns and contribution to client's financial outcomes, a partial performance-based payment may be offered to advertisers, which will make the overall compensation appear fairer. The interviews with advertisers conducted for the purposes of this study indicated how important performance-based payment could be to them.

7.4.4 Pre-purchase service quality

Finally, agencies need to make every effort to improve their service quality, reflected pre-purchase in the manner they respond to the creative brief and in the merits of the resulting creative campaign. Even though this study indicated that the quality of the pitch campaign is superior in building advertiser's perceptions of agency trustworthiness, service delivery, i.e. the response to the brief, need to be of high quality, too, because it is a strong contributor to the perceived campaign quality and thus, enhances trustworthiness indirectly. The chain of

effects associated with the two dimensions of service quality and their influence on perceptions of agency trustworthiness is:

service delivery → campaign quality → trustworthiness

A general recommendation here is to conceptualise and produce the best creative and innovative pitch campaign within the ability of the agency, tailored to fulfil the client's communications objectives. The campaign has to be a good fit with the client's strategy for the brand and aim to influence positively the brand image.

Agencies should also pay attention to the fact that because pitch campaign quality is a stronger indicator of advertising service quality than the response to the brief, competitive pitches will be expected to remain an enduring feature of the agency selection process, as already noted in section 7.3.2. Even though the inclusion of a pitch campaign in the selection process has been criticised by agencies and others in the advertising industry, they are the only way to test-drive a new agency and as such provide invaluable information about agency quality and agency trustworthiness, and hence makes an important contribution to the final choice.

In brief, this study provides some insight into the decision making process of advertisers when in a search for a new advertising agency, which could be of value to agencies trying to improve their marketing strategies.

7.5 Limitations

The present research has also some limitations.

Firstly, the study examines only one industry, i.e. the advertising industry, which limits the scope of the generalisations from the research to this industry only. Even though the theories guiding this research are applicable to any information asymmetric transactions and one would expect the type of causal relationships identified by this study to hold within the markets for any PBS, it is advisable to check this via empirical research in the fields of other PBS before a generalisation can be drawn in relation to other PBS industries.

Secondly, the research is conducted in Australia and examines the organisational buyer behaviour of Australian firms only. Although the existing international literature on advertising agency selection (discussed in more detail in Chapter 2), indicates high degree of convergence of business practices in relation to the process and selection criteria used, one has to keep in mind that uniformity in how business is conducted across cultures and national borders can never be assumed. As discussed in Chapter 3, empirical research indicates that, for example, the criteria used to select management consultants in Australia and New Zealand are not exactly the same, even though the two countries are considered to have very similar business cultures (Page, 1998). Such findings points to the need to validate the research in other countries in order to check if it will yield the same results.

A limitation is also the cross-sectional approach to research design for a study seeking to establish the existence of causal relationships. In general, longitudinal research provides stronger evidence of cause-and-effect relationship, because data are collected not just once,

but multiple times, in different time periods, which allows to identify potential "causal sequence between variables" (Hair et al., 2010, p. 643). On the basis of such sequence, provided the conditions for causality (discussed in chapter Five) are observed, one can maintain that changes in the endogenous constructs are caused by changes in certain exogenous constructs, and therefore a cause-and-effect relationship between them exists (Hair et al., 2010). The choice of cross-sectional research design for the present study was driven by time and financial resource limitations, which prevented the use of a longitudinal approach to data collection. Even though many studies in marketing use cross sectional data to test causal relationship by means of structural equation models, the results of such research need to be used with some caution, because it may be risky to make causal inferences from cross-sectional data (Chin, Peterson & Brown, 2008; Hair et al., 2010).

In conclusion, despite some limitations, the present study delivers good results, that contribute to the existing knowledge in marketing of advertising services and present some opportunities for useful future research, as will be discussed in the next section.

7.6 Future research

A way in which future research can extend the present study is to apply the same model to the advertising industry in other countries, to identify how well it fits data collected in other cultural and economic environments, similar or dissimilar to Australia.

Future research in the focal field of investigation could examine whether the model proposed and tested in this study produces similar results in the context of other types of PBS. It will be

useful to understand if the same factors can predict choice in markets for other PBS, or other credence service. More studies could make it possible to draw conclusions that go beyond a specific industry and allow generalisation of factors predicting the choice of credence services' suppliers. Hence, this research can be used as a stepping stone for the building of a theory of credence services supplier selection.

A different approach to research in the same field of knowledge will be to focus attention on advertising service quality, and more particularly to examine further the dimensionality of the construct and the measures that best capture the meaning of SQ in the context of the advertising industry. Although the used in this study measure showed very good psychometric properties, including discriminant validity between the two dimensions, it has been designed based on secondary sources, i.e. knowledge obtained from previous research. However, given the specificity of the advertising industry it may be necessary to redevelop these measures starting from scratch, by conducting exploratory research first, to identify the best number of dimensions, as well as to source the items for the measure, following the recommendations of Churchill, (1979). This is a comprehensive procedure though, and as such it should be the sole purpose of an entire research project.

In addition, the study found that compensation fairness contributes the most to the variance of expected value, which is indicative of the importance of this construct. However, there is not much background information about the advertiser-perceived agency compensation fairness in the literature, hence more research is needed. Given the perceptual nature of this construct, it may be worthwhile for agency managers to put efforts and try to learn in more detail what advertisers perceive as fair compensation first, and what its drivers are. Hopefully this will

contribute to a better understanding of the construct and improved management of buyer perceptions of compensation fairness.

Finally, future studies may also look to incorporate more predictors to ESV that fit the EOI theoretical framework.

In brief, there are a number of ways in which this study could be used as a basis for future research.

7.7 Summary

This chapter is the concluding part of the entire thesis. It discussed the results obtained from the study, and focused on their implications for marketing theory and managerial practice. The contributions of the research to marketing knowledge were outlined and avenues for future enquiry in the field of interest were proposed. The limitations of the research were also recognised.

7.8 Conclusion

The thesis aimed to identify a small group of carefully selected agency selection factors which can predict the choice of a new advertising agency. A thorough literature review identified a range of important selection factors. A preliminary qualitative analysis, based on personal in-depth interviews with key informants, reassured that these factors are relevant in Australia, where this research took place. After fine-tuning the research constructs, a

conceptual framework was constructed, guided by the predictions of Economics of Information and Signalling theories. A research model emerged as a result, and a causal research design, based on structural equation modelling was used for the study. The data were collected via a mail survey to key informants in Australian companies which retain at least one advertising agency on a continuous basis, and hence engage in agency selection. A net sample of 114 responses was obtained and was analysed using Partial Least Squares (PLS) Path Modeling. The results of the data analysis confirmed twelve of the eighteen direct effects hypotheses. Five constructs were found to impact positively on the DV expected service value of advertising services. The model explained 61% of the variance of the DV, indicating the model has good predictive ability. The research also found strong support for the mediating role of selection risk reduction on the expected value of agency services, and thus, on the choice of a new agency. Partial support for the mediating role of trustworthiness was also found.

In summary, it can be concluded that the proposed research model can be used successfully to predict choice of an advertising agency in Australia. Future studies may apply the model in other industries and other countries, in an attempt to extend the validity of the study beyond the advertising industry and outside the Australian national context and to use it a foundation for the development of a theory of credence services supplier selection.

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